Banco Desio

BASEL III PILLAR 3

PUBLIC DISCLOSURE AS AT 31 DECEMBER 2022

Desio, 23 March 2023

Banco di Desio e della Brianza S.p.A. | Registered Office via Rovagnati, 1 - 20832 Desio (MB) | Tax Code No. 01181770155 | Registered with the Metropolitan Chamber of Commerce of Milan, Monza and Brianza and Lodi | Share Capital Euro 70,692,590.28 fully paid-up | Member of the Interbank Deposit Protection Fund | and of the National Guarantee Fund | Registered in the Banking Register under ABI Code No. 3440/5 | Parent Company of Gruppo Bancario Banco di Desio e della Brianza | Registered with the Banking Group Register under No. 3440/5

Banco Desio

Summary

This document is a courtesy translation into English, for the convenience of international readers, of the document in Italian approved by the Board of Directors. In case of any discrepancies or doubts between the English and the Italian versions of the Report, the Italian version prevails.

1. Introduction

As of 1 January 2014, the prudential regulations for banks and investment firms contained in Regulation (EU) 575/2013 (hereinafter referred to as "CRR" or the "Regulation") and Directive 2014/36/EU (hereinafter referred to as "CRD IV" or the "Directive") of 26 June 2014, which transpose the measures adopted by the Basel Committee on Banking Supervision (*Basel III* regulatory framework) into the EU regulatory framework, took effect.

In this context, the regulations concerning Pillar 3 require the publication of information on capital adequacy, risk exposure and the general characteristics of the systems designed to identify, measure and manage these risks. In particular, Public Disclosure is governed by Regulation (EU) 575/2013 (the "CRR"), Part Eight and Part Ten, Titles I, Chapter 3 and the regulatory or implementing technical standards issued by the European Commission to govern.

Regulation (EU) 876/2019 ("CRR II"), in force since 28 June 2021, amended the "CRR", updating the content of public disclosure (Articles 431 et seq.). While Implementing Regulation (EU) 2021/637, which establishes implementing technical standards with regard to the publication by institutions of the information required by the "CRR", has instead organically regulated the tabular contents and qualitative information required to comply with each article of the "CRR II" (replacing and supplementing several previously published guidelines). Finally, Commission Implementing Regulation (EU) 2022/631 of 13 April 2022 amends the implementing technical standards set out in Implementing Regulation (EU) 2021/637 with regard to the disclosure of interest rate risk exposures on positions not held in the trading book.

With its communication of 1 July 2020, the Bank of Italy also implemented the Guidelines of the European Banking Authority (EBA) on reporting and public disclosure requirements on exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07). The Guidelines call for biannual information on:

- loans subject to "moratoria" that fall within the scope of the EBA Guidelines on Legislative and Non-Legislative Moratoria on Loan Payments applied in the Light of the Covid-19 Crisis (EBA/GL/2020/02);
- loans subject to forbearance measures applied in the wake of the Covid-19 crisis;
- new financing guaranteed by the State or other public body.

As a result of regulatory changes, Banco di Desio e della Brianza S.p.A. (hereinafter "Banco Desio" or "Banco") is obliged to:

- prepare annual reporting (as at 31 December each year) taking into account the amendments to the CRR and the disclosure standards introduced by Implementing Regulation (EU) 2021/637;
- provide on a half-yearly basis (as at 30 June each year) simplified reporting (only the content of the key metrics required by Art. 447 CRR), as it does not qualify as a large institution nor as a small, non-complex institution under Art. 433 CRR;
- for a time horizon of 18 months from the first report made (30 June 2020), provide in both the annual and half-yearly statements information on exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07).

With specific reference to the changes introduced by CRR II, in addition to the change in the frequency and integration of the quantitative information to be prepared for annual reporting, the following main points of attention are recalled:

- for Article 431 CRR, it is stipulated, as in the past, that a formal policy must be in place to comply with the requirements, with three clarifications:
    a) the Board of Directors (BoD), formerly responsible for overseeing the bank's public information and disclosure process, establishes and maintains processes, systems, and internal controls to verify that the institution's disclosures are adequate and comply with the requirements set forth in the CRR;
    b) the information to be published is subject to the same level of internal verification applicable to the management report included in the institution's financial report;

c) a member of the board of directors or senior management certifies in writing that the institution has made the disclosures required under this Part in accordance with formal policy and internal processes, systems and controls.

- article 434 CRR requires institutions to publish all required information in a single medium or location.

This document has been prepared through the collaboration of the various bodies and structures involved in the governance and execution of processes, consistently with the powers provided for by the internal regulations of the Banco Desio Group, which has adopted a specific policy formalising the processes used to prepare and publish public disclosures relating to Basel III Pillar 3.

Specifically, at its meeting of 22 March 2022, the Bank's Board of Directors approved a revision of the internal regulatory framework, which consists of:

- a policy defining the functional guidelines for the preparation of the disclosure document, including the main roles and responsibilities of each actor involved in the process;
- a process regulation aimed at guiding the modus operandi of the corporate functions involved in the process of governance and preparation of the public disclosure document and at defining, in more detail, the roles, responsibilities and activities required for the design, preparation and approval of the document;
- an operations manual, describing, in more detail, the various process steps and their control points, to accompany the process regulation.

In particular, the policy for preparing Pillar III public disclosures, in continuity with previous provisions, confirms the simultaneous publication of the financial disclosure as a separate document, on a half-yearly basis (instead of annually); it also provides for the certification by the Chief Executive Officer that "*processes, systems and internal controls as defined in the formal policy adopted by the Bank have been used to prepare the document*".

Also with a view to ensuring a structured and effective reporting process, starting from the situation as at 31 December 2021, the Bank adopted the IT module made available by an external provider, integrated with the platforms already used for financial statements, supervisory reporting and non-financial reporting, from which it draws its quantitative information.

For the sake of completeness, we specify that the information published refers to the area of prudential consolidation, i.e. all entities subject to consolidation for supervisory purposes. Any misalignments with respect to other sources (consolidated financial statements prepared at the same reporting date) are therefore attributable to differences in the perimeter considered.

Unless otherwise indicated, the amounts in the tables and figures in this document are expressed in thousands of euros. Tables or parts of tables not found within the document are not applicable to this disclosure.

The Banco Desio Group publishes this public disclosure via its website (www.bancodesio.it).

2. Disclosure of key metrics and overview of risk-weighted exposure amounts[1]

According to the provisions of Articles 11(2) and (3) and 13(2) of the CRR Regulation, banks controlled by a "parent financial holding company" are required to comply with the requirements of the Regulation on the basis of the consolidated situation of that financial holding company. These provisions make the calculation of capital ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., parent company of 50.08% of Banco di Desio e della Brianza S.p.A.

On 18 May 2022, the Bank of Italy notified 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 on capital at the conclusion of the periodic supervisory review process ("SREP"), ordering that, starting from the first report on capital adequacy thereafter, the Brianza Unione Group adopt the following capital ratios at the consolidated level:

- CET 1 ratio of 7.35%, comprising a binding measure of 4.85% (of which 4.5% against the regulatory minimum requirements and 0.35% against the additional requirements determined as a result of the SREP) and the remainder from the capital conservation buffer component;
- Tier 1 ratio of 9.00%, consisting of a binding measure of 6.50% (of which 6.00% against the regulatory minimum requirements and 0.50% against the additional requirements determined as a result of the SREP) and the remainder from the capital conservation buffer component;
- Total Capital ratio of 11.15%, comprising a binding measure of 8.65% (of which 8.00% against the minimum regulatory requirements and 0.65% against the additional requirements determined as a result of the SREP) and the remainder from the capital conservation buffer component.

The capital conservation buffer of 2.5%, in addition to the minimum requirements, is intended to provide banks with high-quality capital resources to be used in times of market stress to prevent disruptions in the banking system and to avoid interruptions in the lending process.

As part of its work in 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 higher of the SREP binding total capital ratio (8.65% binding level) and leverage (3%).

On 25 January 2018, the Board of Directors of the Bank resolved to adhere to the transitional provisions introduced by Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the introduction of the IFRS 9 accounting standard on equity and capital ratios, with reference to both the component of the increase in adjustments for expected losses on performing and impaired loans on first-time application of the standard, and with reference to the increase in expected losses on performing loans compared to the date of first-time application of the standard.

The transitional provisions for sterilising the impacts of IFRS 9 *Financial Instruments* were subsequently extended by EU Regulation 873/2020, which allowed banks in particular to sterilise the capital impacts related to the increase in loan impairments recognised in the period 2020 - 2024 in a decreasing manner compared to 1 January 2020 for stage 1 and stage 2 portfolios.

At its meeting on 30 July 2020, the Board of Directors also resolved to avail itself of the option provided for in Regulation (EU) 2020/873 and thus of the temporary treatment of unrealised gains and losses measured at fair value through other profit and loss components for government debt securities over the 2020-2022 period (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022).

[1] See Art. 1 of Implementing Regulation (EU) 2021/637

Template EU KM1

		a	b	c	d	e
		31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	845,186	828,329	826,582	812,690	840,462
2	Tier 1 capital	907,922	889,103	887,002	869,230	898,097
3	Total capital	989,669	968,292	965,731	944,773	972,982
	Risk-weighted exposure amounts					
4	Total risk exposure amount	7,665,612	7,425,821	7,382,626	7,124,341	7,215,518
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	11.0257%	11.1547%	11.1963%	11.4072%	11.6480%
6	Tier 1 ratio (%)	11.8441%	11.9731%	12.0147%	12.2008%	12.4467%
7	Total capital ratio (%)	12.9105%	13.0395%	13.0811%	13.2612%	13.4846%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks of excessive leverage (in %)	0.6500%	0.6500%	0.6500%	0.6000%	0.6000%
EU 7b	Of which capital CET1 (%)	0.3500%	0.3500%	0.3500%	0.3500%	0.3500%
EU 7c	Of which tier 1 capital (%)	0.5000%	0.5000%	0.5000%	0.4500%	0.4500%
EU 7d	Total SREP own funds requirements (%)	8.6500%	8.6500%	8.6500%	8.6000%	8.6000%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution-specific countercyclical capital buffer (%)	-	-	-	-	-
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	-	-	-	-	-
11	Combined buffer requirement (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
EU 11a	Overall capital requirements (%)	11.1500%	11.1500%	11.1500%	11.1000%	11.1000%
12	CET1 available after meeting the total SREP own funds requirements (%)	2.4257%	2.5547%	2.5963%	2.8072%	3.0480%
	Leverage ratio					
13	Leverage ratio total exposure measure	18,246,287	19,358,568	18,933,699	19,119,174	18,376,789
14	Leverage ratio (%)	4.9759%	4.5928%	4.6848%	4.5464%	4.8871%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
EU 14a	Additional own funds requirements to address risks of excessive leverage (in %)	0%	0%	0%	0%	0%
EU 14b	of which capital CET1 (%)	0%	0%	0%	0%	0%
EU 14c	Total SREP leverage ratio requirements (%)	3.0000%	3.0000%	3.0000%	3.0000%	3.0000%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure)					
EU 14d	Required leverage buffer (%)	3.0000%	3.0000%	3.0000%	3.0000%	3.0000%
EU 14e	Overall leverage ratio requirements (%)	3.0000%	3.0000%	3.0000%	3.0000%	3.0000%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	2,722,198	2,910,518	2,749,406	2,975,545	3,097,842
EU 16a	Cash outflows - Total weighted value	2,084,702	2,044,135	2,141,844	2,026,904	2,064,235
EU 16b	Cash inflows - Total weighted value	529,950	515,616	527,261	506,401	514,348
16	Total net cash outflows (adjusted value)	1,554,752	1,528,520	1,614,584	1,520,503	1,549,887
17	Liquidity coverage ratio (%)	175.7581%	191.0776%	170.2858%	195.6948%	199.8753%
	Net Stable Funding Ratio					
18	Total available stable funding	13,427,908	14,701,077	14,771,955	15,059,359	14,845,920
19	Total required stable funding	10,457,682	11,452,623	11,296,013	11,490,893	11,225,054
20	NSFR ratio (%)	128.4023%	128.3643%	130.7714%	131.0547%	132.2570%

As at 31 December 2022, the consolidated ratios calculated for the financial parent company were confirmed to be above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure mentioned above. There has been a continuous and progressive strengthening of capital as a result of the derisking implemented on the credit portfolio and the regulatory initiatives implemented by the European Union.

The Group complies with the LCR (Liquidity Coverage Ratio) regulatory requirement by placing itself well above the regulatory limit. The performance of the indicator is increasing compared to the last quarters surveyed; high-quality liquid and available assets consist entirely of the most liquid type (Level 1) of assets eligible for the numerator of the LCR.

The Net Stable Funding Ratio (NSFR), reported for the first time on 30 June 2021, is a liquidity indicator that measures the availability of stable funding; banks are required to maintain a stable amount of funding or maturing beyond 12 months, which allows them to finance their activities over the long term.

The capital ratios without application of the transitional provisions, as shown in the table below, also confirm the Group's capital strength.

Comparison statement of Own Funds and Prudential Ratios calculated with the application of Regulation (EU) 2017/2395 (application of transitional provisions) and with full application of impacts related to IFRS 9 application of transitional provisions).

	31.12.2022		30.09.2022		30.06.2022		31.03.2022		31.12.2021	
	Application of transitional regime	Without transitional regime IFRS9	Application of transitional regime	Without transitional regime IFRS9	Application of transitional regime	Without transitional regime IFRS9	Application of transitional regime	Without transitional regime IFRS9	Application of transitional regime	Without transitional regime IFRS9
OWN FUNDS										
Common Equity Tier 1 (CET1) capital	845,186	818,827	828,329	801,745	826,582	799,072	812,690	786,765	840,462	798,859
Tier 1 capital	907,922	881,028	889,103	861,979	887,002	858,939	869,230	842,793	898,097	855,675
Total own funds	989,669	962,078	968,292	939,992	965,731	936,947	944,773	915,139	972,982	929,543
RISK ASSETS										
Risk-weighted assets	7,665,612	7,600,237	7,425,821	7,359,967	7,382,626	7,315,001	7,124,341	7,059,883	7,215,518	7,112,902
SUPERVISORY RATIOS										
Primary Tier 1 capital/risk-weighted assets (CET1 capital ratio)	11.026%	10.774%	11.155%	10.893%	11.196%	10.924%	11.407%	11.144%	11.648%	11.231%
Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)	11.844%	11.592%	11.973%	11.712%	12.015%	11.742%	12.201%	11.938%	12.447%	12.030%
Total capital/risk-weighted assets (Total capital ratio)	12.910%	12.659%	13.040%	12.772%	13.081%	12.809%	13.261%	12.963%	13.485%	13.068%
LEVERAGE RATIOS										
Leverage ratio total exposure measurement	18,246,287	18,246,287	19,358,568	19,358,568	18,933,699	18,933,699	19,119,174	19,119,174	18,376,789	18,376,789
Leverage ratio	4.98%	4.83%	4.59%	4.45%	4.68%	4.54%	4.55%	4.41%	4.89%	4.66%

The composition of RWA as at 31 December 2022 and the related capital requirements is shown below.

Template EU OV1: Overview of risk weighted exposure amounts

		Total Risk Exposure Amounts (TREA)		Total own funds requirements
		a	b	c
		31/12/2022	30/06/2022	31/12/2022
1	Credit risk (excluding CCR)	6,731,050	6,615,403	538,484
2	*Of which the standardised approach*	*6,731,050*	*6,615,403*	*538,484*
3	*Of which the foundation IRB (FIRB) approach*	-	-	-
4	*Of which: slotting approach*	-	-	-
EU 4a	*Of which: equities under the simple risk-weighted approach*	-	-	-
5	*Of which the advanced IRB (AIRB) approach*	-	-	-
6	Counterparty credit risk - CCR	214,246	86,663	17,140
7	*Of which the standardised approach*	-	-	-
8	*Of which Internal Model Method (IMM)*	-	-	-
EU 8a	*Of which exposures to a CCP*	*556*	*467*	*44*
EU 8b	*Of which credit valuation adjustment - CVA*	*121,393*	*50,453*	*9,711*
9	*Of which other CCR*	*92,296*	*35,744*	*7,384*
10	*Not applicable*			
11	*Not applicable*			
12	*Not applicable*			
13	*Not applicable*			
14	*Not applicable*			
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	17,032	18,653	1,363
17	*Of which SEC-IRBA approach*	-	-	-
18	*Of which SEC-ERBA (including IAA)*	-	-	-
19	*Of which SEC-SA method*	*22,681*	*24,754*	*1,814*
EU 19a	*Of which 1250 %*	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	20,840	22,100	1,667
21	*Of which the standardised approach*	*20,840*	*22,100*	*1,667*
22	*Of which IMA*	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	682,444	639,806	54,596
EU 23a	*Of which basic approach*	-	-	-
EU 23b	*Of which the standardised approach*	*682,444*	*639,806*	*54,596*
EU 23c	*Of which advanced measurement approach*	-	-	-
24	Amount below thresholds for deduction (subject to 250 % risk weight)	-	-	-
25	*Not applicable*			
26	*Not applicable*			
27	*Not applicable*			
28	*Not applicable*			
29	Total	7,665,612	7,382,626	613,249

Table EU OVC: ICAAP Information

The term capital adequacy refers to the assessment of the ability of the company's capital to withstand, in current and prospective terms, the unexpected losses inherent in the conduct of business, assuming that the expected losses - particularly with regard to credit risk - are covered by the net value adjustments (specific and portfolio) of equal magnitude already recognised in the profit and loss account.

In this context, the bank not only complies with regulatory capital requirements (for credit, counterparty, market, and operational risks), as equity is the primary safeguard against the risks associated with banking activities and the primary criterion for judging capital adequacy by the Supervisory Authority, but also has strategies and processes in place to assess and hold over time the total capital deemed adequate (in amount and composition) to cover all the risks to which it is or could be exposed (internal capital or capital at risk).

Through its Internal Capital Adequacy Assessment Process (ICAAP), the Group conducts an independent assessment of its capital adequacy, both current and prospective, in relation to the risks assumed and business strategies. This process is documented, known and shared by the corporate structures and is subject to internal review.

The scope of the ICAAP process is the Banking Group on a consolidated basis, as indicated by the supervisory regulations. With this in mind, the ICAAP process is carried out by the relevant functions of the Parent Company.

The internal process of determining capital adequacy is carried out both from a regulatory perspective (according to the time-frame and methods provided for in Bank of Italy Circular No. 285/2013, Part I, Title III, Chapter 1), and from a management perspective (according to time-frames provided for internally and through methods that may also differ from those prepared from a regulatory perspective).

The capital adequacy determination process consists of the following main steps:

- identification of the risks to be assessed, with reference both to regulatory or first-pillar risks, and risks falling under the second pillar (single-name and geo-sector concentration risk, interest rate risk arising from activities other than trading, liquidity risk, residual risk, risks arising from securitisations, strategic risk, reputation risk and any other types of risk related to the Group's specific operations);

- measurement/assessment of individual risks and related internal capital. Internal capital is calculated for regulatory risks and for quantifiable Pillar 2 risks and limited to those for which the Bank of Italy has indicated simplified methodologies for determining internal capital. For other types of risk, which are difficult to quantify, qualitative assessments are, however, provided and appropriate control and mitigation systems are in place;

- valuation of total internal capital. The Group determines total internal capital according to a simplified "building block" approach, which consists of adding to the regulatory requirements for Pillar 1 risks (or to the internal capital related to those risks calculated on the basis of internal methodologies, if any), the internal capital related to other relevant risks, if any. In accordance with supervisory regulations, the assessment of total internal capital is conducted under both normal business conditions and stress conditions.

3. Disclosure of risk management objectives and policies[2]

Table EU OVA: Institution risk management approach

Publication of a short risk statement approved by the board of directors

In accordance with the Supervisory Provisions, the Board of Directors defines the Risk Appetite Framework (RAF), based on the Bank's business model, taking into account the Bank's operational and strategic objectives, management structure, Risk Capacity, the process for determining capital adequacy and the Internal Control System. The RAF, therefore, contributes to the implementation of the principle of sound and prudent management and improves the Bank's ability to manage risk with respect to its objectives and its Risk Tolerance.

Prudential supervisory regulations define the following concepts relevant to the RAF:

- ✓ risk capacity (maximum risk that can be taken): represents the maximum level of risk that a bank is technically capable of taking on without breaching regulatory requirements or other constraints imposed by shareholders or the supervisory authority;
- ✓ risk appetite (risk objective or appetite): the level of risk (overall and by type) that the bank intends to take in pursuit of its strategic objectives;
- ✓ risk tolerance (tolerance threshold): the maximum deviation from the risk appetite allowed. The tolerance threshold is set so as to ensure that the bank has sufficient margins in all cases to operate, even under stress conditions, within the maximum risk that can be assumed;
- ✓ risk profile (actual risk): the risk actually measured at a given point in time;
- ✓ risk limits: the structuring of risk objectives into operational limits defined in line with the principle of proportionality, by type of risk, business units and/or lines, product lines and types of customers.

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

In addition, there are specific policies concerning the various types of risk that provide the criteria for their operational management from a group and individual perspective. A description of the three types of indicators used and of the qualitative assessment of the organisational controls for measuring, monitoring and managing the various types of risks is provided below. The values of the thresholds are described in specific documents approved by the relevant corporate bodies.

Level 1 risk indicators (RAF): these relate to specific macro-areas concerning the Group's risk exposure represented by capital adequacy, financial structure, liquidity, profitability and business. Both the concepts of risk appetite, risk tolerance and risk capacity and a threshold value (warning threshold) are calibrated to each indicator. Where the latter threshold is exceeded, this triggers specific corporate escalation processes. No top-level indicators are calibrated for the individual legal entities that make up the Group.

Level 2 risk indicators: these are attributable to the individual types of risk and are considered to be of particular significance for banking operations. A system of operational limits (risk limits) is calibrated on each indicator, structured on two different types of thresholds, and where these are exceeded this entails the activation of specific corporate escalation processes, depending on the lesser or greater level of seriousness identified (warning and tolerance thresholds respectively). The purpose of these thresholds is to provide early warning of any approach of the second-level risk indicators to a situation deemed particularly critical.

Key-risk indicators: these are attributable to the individual types of risk and deemed to be of particular significance with reference to operational and management aspects. Therefore, they provide additional information, from a different

[2] See Art. 2 of Implementing Regulation (EU) 2021/637

perspective, on the dynamics of the Group's risk exposure. There are no thresholds on these indicators, although they are monitored periodically in order to detect any anomalous data or possible atypical trends and identify any corrective actions accordingly.

<u>The qualitative assessment of organisational safeguards</u>: a qualitative assessment of the organisational safeguards currently in place against business risks. The objective of this activity is to analyse, through the examination of evidence from the second and third level control functions, the adequacy of the organisational configuration in place in relation to the risk appetite profile defined in the RAF. The evidence obtained makes it possible, firstly, to formulate a judgement of overall adequacy on the state of the art of organisational controls and, subsequently, to identify specific improvement measures to be activated in the next 12 months. Finally, an assessment of the expected adequacy profile of the organisational structures, following the implementation of the aforementioned measures, is carried out by sharing it with the structures concerned. Subsequently, the identified actions are approved with the definition of the relevant time-frames and responsibilities for implementation and coordination. The activities identified are carried out as part of the ICAAP self-assessment process.

This also includes the annual self-assessment carried out by the Anti-Money Laundering Office on money laundering and terrorist financing risks. The methods for analysing these risks are carried out in line with the provisions of the Bank of Italy[3] and implemented in the Anti-Money Laundering Policy.

The implementation of the RAF includes effective monitoring and reporting activities to analyse and assess the bank's risk profile. If the thresholds of the risk indicators are exceeded this triggers specific escalation processes aimed at assessing, first of all, the reasons behind the breach of limits and, subsequently, identifying corrective actions to restore normal business operations. Escalation processes differ depending on whether the thresholds are exceeded in respect of first- or second-tier risk indicators.

Information on the risk governance structure for each type of risk

In general terms, it is possible to define risk, in the economic-financial sphere, as the possibility that the outcome of any transaction carried out by an economic entity will be different from what was expected *ex ante*. It is therefore implicit that risk is an integral part of banking and that the medium/long-term stability of the Credit Institution and its competitiveness are a function of the risk/return ratio of the transactions implemented as a whole. In order to cope with the risks to which it is exposed, the bank has appropriate governance arrangements and adequate management and control mechanisms. These safeguards cover each type of business risk assumed consistently with the characteristics, size and complexity of the activities performed by the intermediary. In compliance with Bank of Italy Circular No. 285/2013, the Banking Group prepared the Risk Appetite Framework (RAF), which is updated on an annual basis in line with the evolution of the bank's risk objectives and strategies

Group-wide strategic decisions on risk management are left to the corporate bodies of the Parent Company, and these choices take into account the specific operations and related risk profiles of each of the Group's member Companies. As far as the other components of the Group are concerned, the corporate bodies are aware of the risk profile and management policies defined by the Parent Company and are responsible for implementing these policies in a manner consistent with their own corporate situation. With a view to an effective and efficient risk management and control system, the Group places specific responsibilities on its organisational structure. With this in mind, the Group applies the principle of separation of the functions involved in the risk control process in accordance with prudential supervisory regulations.

The Internal Control and Risk Management System consists of the set of rules, procedures and organisational structures designed to enable the identification, measurement, management and monitoring of the main risks. This system is integrated into the organisational and corporate governance structures adopted by the Group. The guidelines of the system are defined in internal regulations. Detailed operational and disclosure provisions concerning the controls put in place, at the various levels, on company processes are contained in specific function regulations and Internal Procedures. The Bodies and Functions involved in the Internal Control System are organised as follows:

[3] See Communication No. 1115097/15 of 21/10/2015

- Board of Directors, approves and evaluates the adequacy of the corporate governance, organisational, administrative and accounting structure of the Bank and the Group, with particular reference to the system of internal controls and management of all risks, ensuring a clear distinction of duties between functions, as well as the prevention of conflicts of interest;
- Board of Statutory Auditors, i.e. the body with control functions that is responsible for supervising compliance with laws, regulations and by-laws, the proper implementation and adequacy of control functions (Supervisory Board pursuant to Legislative Decree No. 231/2001);
- Executive Committee to which ordinary management tasks are assigned;
- Risk Control and Sustainability Committee, with advisory and investigative functions for the Board of Directors, with particular reference to assessments relating to the internal control and risk management system as well as, for related aspects, those relating to strategic plans and budgets and periodic financial reports;
- Risk Management Committee for its specific decision-making and advisory purposes in the area of risk management and coordination of the control system;
- CEO, in the "Internal Control and Risk Management System" area, without prejudice to the prerogatives of the Board of Directors, of the Control and Risk Committee and of the Board of Statutory Auditors, carries out, with the support of the internal control functions, the tasks of monitoring and coordination of the Internal Control and Risk Management System as a whole, with the aim of ensuring that its effectiveness is maintained.
- General Manager (a role held, as mentioned, by the same person as the CEO), who is responsible for implementing the resolutions of the Board of Directors and the Executive Committee;
- Manager in charge, who is responsible for defining and maintaining an organisational and control model for the Group's financial reporting, aimed at ensuring the reliability and integrity of accounting and management information;
- Compliance Office, which is assigned the task of managing and overseeing, at Group level, the risk of non-compliance with regulations;
- Anti-Money Laundering Office, whose tasks are to put in place procedures and controls to prevent money laundering and terrorist financing activities carried out through the Group's channels;
- Risk Management Department, with the task of supporting the governance of corporate and Group risks in accordance with defined strategies, plans and risk policies and in compliance with primary, secondary and corporate regulations. It is responsible for measuring and monitoring the Group's exposure to different types of risk, including credit and concentration risk, also coordinating project activities for the definition and implementation of models, methodologies and tools for assessment and measurement and developing an integrated reporting system for risk monitoring;
- Internal Audit Department, which is responsible for carrying out audits to ensure that the Internal Control System, both corporate and Group-wide, is effective and efficient.

These functions also perform their activities vis-à-vis the subsidiaries, in accordance with the provisions of the specific function regulations, as well as - where the Parent Company outsources the internal control tasks of certain Subsidiaries - in accordance with the provisions of the relevant Framework Agreements.

Information on the scope and nature of reporting and/or risk measurement systems: main features of reporting and risk measurement systems

The Risk Management Process represents a reference model in organisational and process development and in the systematic execution of all operational and business activities that involve the assumption and ongoing management of risks. It is also an obligatory reference in the planning and execution of all activities of a non-systematic or contingent nature.

At general level, the Group implements its business model through an organisational model that ensures the coordinated deployment of human resources, technologies and methodologies on the basis of an internal set of rules that defines the management structures, internal regulations (rules, delegations and limits), and the processes in which activities are carried out, including control activities.

The Group's organisational structure provides for the monitoring and management of risks based on an approach of separation between business and control functions. The Board of Directors approves strategic guidelines and risk management policies. The Board verifies that, also at Group level, the CEO promotes and ensures in his work clear and widespread knowledge of the risk management policies approved by the Board of Directors itself, defines the structure of the internal control system in line with the predefined risk appetite within the RAF ("Risk Appetite Framework"), and that the control functions have autonomy within the structure and are provided with adequate resources to perform their responsibilities. The Parent Company's Risk Management Department ensures the integrated risk management process, controlling and monitoring risks, systematically identifying and analysing sources, coordinating project activities for the definition and implementation of models, methodologies and measurement tools, and developing an integrated reporting system for monitoring.

The provision of information flows between corporate functions/organisations facilitates the exchange of complete, timely and accurate information. In particular, it enables the rapid and timely activation of escalation mechanisms towards the competent corporate bodies, with particular reference to those serious situations that require prompt intervention due to their particular nature.

Depending on who is involved in the preparation and reception of the information flow, two different ways of implementation are defined:

- Vertical flows (from control functions to corporate bodies);
- Horizontal flows (between control functions).

Consistent with the regulatory provisions contained in Circular 285/2013, an integrated risk management process has been implemented at Group level among the corporate Functions/Bodies in order to:

- promote understanding and a deeper and more effective evaluation;
- plan future control activities based on the outcomes of evaluations;
- initiate the implementation of mitigation actions in the event that risks have been identified that have not yet been controlled or whose controls have proved ineffective;
- identify any gaps in the control system and remedy them immediately.

Information sharing is achieved through:

- the exchange of information flows;
- participation in the Risk Management Committee, as part of the periodic coordination meetings between the Group's corporate control functions in order to discuss the progress of the mitigation/resolution of identified risks and to discuss regulatory news relevant to the Group.

In order to better assess risk exposure, the related mitigation and control systems and capital and liquidity adequacy, the Group conducts stress exercises.

Stress tests are a fundamental tool to adopt a forward-looking perspective in one's risk management, strategic planning and capital planning activities and are an integral part of the ICAAP/ILAAP process.

The stress test exercises carried out by the Group are divided into:

- regulations, or required by the regulator/supervisor, carried out at least annually and in any case in connection with the preparation of the ICAAP/ILAAP Report and the Turnaround Plan;
- management exercises, i.e. exercises in which scenarios, rules and conventions are defined internally within the Bank, necessary for the definition of corporate strategy.

The two main risk categories involved in the simulations are:

- Capital risks, i.e. exercises in which the impact of individual risk factors on capital is assessed;
- Liquidity risk, i.e. specific exercises to measure the liquidity buffer under stress conditions.

The categories of analysis implemented by the Group for conducting stress testing exercises are:

- sensitivity analysis;
- scenario analysis;
- reverse Stress Testing.

The Group has structured its stress testing analyses by considering two different application and methodological approaches that aim to obtain, on the one hand, a single-risk view and, on the other hand, an overall view of the impacts on capital and liquidity. The framework therefore includes sensitivity analyses for each relevant and measurable risk and adverse scenario analyses with underlying assumptions with reference to the main macroeconomic variables.

In particular, the following exercises are planned:

- integrated stress test between business plan model and risk models (multi-risk), which allows, starting from the business plan model, to simultaneously stress multi-period balance sheet and income statement elements starting from changes in the main macroeconomic reference quantities (e.g: GDP, inflation, rate curves, unemployment), and to incorporate within risk-weighted assets and own funds, the negative impacts caused by the deterioration of all risk exposures, also using specific modelling;
- stress test system developed for individual risks (single-risk), which evaluates the effects of specific events on the bank's individual risk factors (sensitivity analysis) or of joint movements of a set of economic/financial variables under the assumption of adverse scenarios (scenario analysis), impacting a specific risk (e.g. credit, or market, or liquidity risk).

Risk management strategies and processes for each risk category

Credit risk

Credit risk is the risk that an unexpected change in the creditworthiness of a counterparty, to which an exposure exists, generates a corresponding change in the market value of the credit position.

Credit risk management strategies and processes

The Group's lending policies are primarily geared towards supporting local economies, households, entrepreneurs, professionals and small and medium-sized enterprises. The special attention paid to the maintenance of the relationships established with customers and their development, represents a strength for the Bank as it allows continuity of the relationship and enables it to support to customers over the long-term.

The Credit Policy expressly refers to the following general principles to be observed in the granting of credit: a) the splitting of risk among multiple companies operating in different sectors of economic activity and in different market segments; b) the adequacy of the credit line at individual name level based not only on the latter's autonomous credit capacity, but also on the technical form of the credit line itself as well as the collateral that can be acquired.

Having said this, for the granting of a credit line and its subsequent maintenance, the Group relies, in principle, on the combined contribution of several elements such as: a) trust, which is based on personal factors relating to the correctness, technical capacity, etc., of those who lead the company; b) the stability of the company's management, which ensures unity and continuity of the management direction; c) the managerial consistency, understood as the company and/or personal assets of the guarantor partners, which must be in adequate terms for the granting of the requested credit line; d) the balanced equity and financial structure, taking into account the resources that the company will be able to rely on and the needs that will arise at the same time as a result of the planned commitments; e) the positive liquidity situation; f) the adequate profitability of the relationship; g) the convincing justification for the allocation of the credit line; h) the prospective income capacity and business continuity. In the case of "*Famiglie Consumatrici*" (Individuals or groups of individuals in their capacity as consumers), on the other hand, the following aspects are taken into account: a) the adequate income capacity in relation to the commitments undertaken and to be undertaken; b) the applicant's asset adequacy; c) the successful testing of existing relationships.

The Structure and organisation of the credit risk management function

The Board of Directors approves and evaluates the adequacy of the corporate governance, organisational, administrative and accounting structure of the Bank and the Group, with particular reference to the system of internal controls and management of all risks, ensuring a clear distinction of duties between functions, as well as the prevention of conflicts of interest.

The CEO, in the "Internal Control and Risk Management System" area, without prejudice to the prerogatives of the Board of Directors, of the Control and Risk Committee and of the Board of Statutory Auditors, carries out, with the support of the internal control functions, the tasks of monitoring and coordination of the Internal Control and Risk Management System as a whole, with the aim of ensuring that its effectiveness is maintained.

Within this framework, referring to risk management in general, the system of proxies for the granting of credit is of particular importance; it is structured according to the company bodies and functions/roles, from the Executive Committee to the Middle Managers. The various functions are therefore assigned responsibilities for assessment activities and risk-taking, within the limits of credit autonomy in line with the organisational structure of the commercial network.

In this context, the Credit Department supports the General Management by overseeing the activities of granting and managing ordinary credit and assisting the General Management in order to ensure a careful and conscious assumption of risk, in line with the company's policies on credit quality, overseeing the overall coordination of credit activities and ensuring the supervision of the sector's operations also with reference to Special Credits (without prejudice to the management autonomy of the Group companies in granting credit to their customers). In particular, it is responsible for: a) standardising credit granting methodologies and processes; b) ensuring the implementation of the Group's credit policy, assuming as the first fundamental element for a correct assessment of credit risk the overall credit exposure of each Counterparty and of the relative legal-economic group to which it belongs vis-à-vis the banking Group; c) supervising the activities carried out in this regard by the structures of the Subsidiaries, issuing the relative instructions and providing the necessary assistance.

Within the Credit Department, the Origination and Monitoring Area performs the following tasks: a) oversees the activities of granting and managing ordinary credit and assists the Credit Department in order to ensure careful and fully-informed underwriting of risk, in line with corporate policies on credit quality; b) oversees internal controls aimed at ensuring the legal certainty of guarantees; c) contributes, in agreement with the Resources Department, to the development of the knowledge and technical-specialist skills of internal staff and the distribution network; d) collaborates in the development of organisational projects, providing the necessary contribution and ensuring the link between the project management centre and the structures of the Department/Area; e) supports training, for the specialist aspects of its competence, in identifying training needs, contributing to the design, implementation and updating of training modules and teaching activities. With particular reference to monitoring activities, it manages the performing/past due positions identified by the instruments in use, for which the conditions for initiating out-of-court recovery or legal action have not yet been met. The main activities carried out, through the Monitoring Office, are described below: a) conducts surveys on the performance of the individual risk positions identified based on periodic and precise controls, according to predefined criteria, or highlighted by other Organisational Units (Credit Department, Risk Management Department, Internal Audit Department, etc.); b) intervenes on the distribution network to highlight signs of anomalies in order to request the normalisation of the risk position and, in the event of a negative outcome, orders its classification in the various anomalous risk categories and determines analytical loss forecasts; c) manages, in cooperation with the distribution network, the risk positions classified as "past due" and "under control", monitoring the evolution of individual positions and coordinating the entire distribution network in this risk control activity; d) supports the Branches in the examination of critical issues and problems related to risk management; e) decides on "under control" and "past due" positions, within the limits of the powers assigned and expresses an opinion on resolutions beyond those powers; f) estimates loss forecasts for positions to be classified as "unlikely to pay" for mortgage positions, requesting drive-by appraisals; g) manages forborne performing positions; h) assesses and analyses performing and past-due positions with extended non-performing loans; i) arranges for the sending of reminder letters, if necessary, and in the event of urgency, for the sending of default letters, the termination of contracts and the enforcement of pledges; l) monitors the network for the proper performance of actions relating to the management of the phenomenon and collateral.

The Special Credits Area, reporting directly to the Credit Department, performs the following tasks: a) assists the Credit Department in order to ensure careful and fully-informed underwriting of risks, in line with the company's policies on credit quality; b) ensures the supervision and implementation of medium- and long-term credit products, subsidised credit and factoring, acting as liaison with medium- and long-term institutions, credit consortia, trade associations (Assilea/Assifact/Assofin) and Data Banks; c) assists the Distribution Network in the preparation and formalisation of financing contracts, verifying the compliance of proposals with the specific regulations and deciding on credit facilities in compliance with delegated powers; d) provides the Organisational Processes Department with support for the specialised aspects within its competence for the implementation and constant updating of internal regulations; it also collaborates with said Department in the development and implementation of the relevant IT applications; e) collaborates in the development of organisational projects, providing the necessary contribution and ensuring the connection between the project management centre and the Area structures.

The NPL Area manages recovery activities on positions classified as non-performing or unlikely to pay, either carried out directly or through external specialised companies, and is organised as follows: UTP Office, Litigation Office and Outsourcing & Special Project Office, which *inter alia* manages the post-sale phase of disposals and acts as an contact point for the Risk Management Department. The NPL Area manages credit recovery activities both in and out-of-court, manages restructured loans and significant exposures, intervenes on positions classified as non-performing, and handles the management of impaired positions by implementing all the necessary steps for credit recovery. The NPL Area submits to the evaluation of parties interested in acquiring NPL files, both individual positions and any unsecured and/or mortgage portfolios, with all the usual activities aimed at collating information for the potential assignee.

The Risk Management Department is responsible for supporting the governance of corporate and Group risks in accordance with defined strategies, plans and risk policies and in compliance with primary, secondary and corporate regulations. It is therefore responsible for measuring and monitoring the Group's exposure to the various types of risk, including credit and concentration risk, also coordinating project activities for the definition and implementation of models, methodologies and tools for assessment and measurement, and developing an integrated reporting system for monitoring risks and the related overall internal capital. The Risk Management Department, through the Credit Risk & Rating Desk, is also in charge of the following controls: a) proper monitoring of credit exposures, both performing and impaired; b) consistency of classifications; c) adequacy of provisions; d) adequacy of the recovery process. The Rating Desk Office was also set up within it, with the functions of override, deliberation and control of ratings assigned to individual counterparties.

Finally, the Internal Audit Department assesses the functionality and reliability of the entire internal control system, and carries out, among other things, checks on the regularity of credit operations.

The scope and nature of credit risk reporting and measurement systems

Credit risk management and control systems are developed in an organisational context that involves the entire credit process cycle, from the initial inquiry phase to the periodic review and the final revocation and recovery phase. During the credit preliminary investigation phase, the Group carries out both internal and external investigations on the borrowing customer, and reaches the final decision to grant credit by also considering all the information relating to the economic entity, which is the result of direct knowledge of the customer and the economic context in which it operates. Basically, the determination of a counterparty's creditworthiness is derived from: a) an analysis of qualitative and quantitative information available from various sources (financial statements, central credit register, databases, etc.); b) a subjective assessment by the Decision-Making Body based on knowledge of the counterparty or management's reputation. In the case of corporate groups, both qualitative and quantitative information on individual group members as well as financial statements and data on a consolidated level are evaluated. The main guidelines of this assessment process refer to: a) knowledge of the borrower in terms of business activity, financial and balance sheet information, reputation of the customer and management in the case of corporations; b) identification of the purposes to which the requested credit assistance is directed; c) identification of the sources of repayment and hedging of the credit risk assumed; d) guarantees acquired in order to mitigate credit risk.

The knowledge of the borrower, if it is a company, consists first of all in verifying the competitive positioning of the borrower in the reference market in which it operates, defined on the basis of the products/services produced, the geographical Area covered by the sales/distribution Network and the target customer segment. In addition to the financial statements, the analysis also covers the forward-looking development of the company's management (business plan) and the repercussions on the financial plan and the resulting ability to repay/cover commitments. For both companies and Private individuals, special attention is paid to the analysis of the investment purposes for which the credit facility is requested. For both private customers and corporations, the correct representation of the purposes and the relative financial plan allow the Decision-Making Body, once it has ascertained its approval of the type of operation, to take on the credit risk in an informed manner, adequately weighting the financial sustainability of the project to be financed, its management effects, and the overall present and prospective profitability that will allow the repayment of its debt.

For management purposes, the Group uses an internal rating system - developed at consortium level and adapted to the Group's portfolio - that classifies each counterparty into risk classes with homogeneous and increasing probability of default. The statistical model is of the "Logit" type and makes it possible to determine the probability of occurrence of the "default" event (PD - probability of default) by means of the combined analysis and evaluation of performance and fundamental factors. The application of this model allows a rating to be assigned on the basis of the information sources used and the relevant segment. In particular, the criteria for segmenting counterparties are derived by taking into account the sector of economic activity (SAE) and the counterparty size (turnover or total assets). There are ten rating classes for performing counterparties (ordered from 1 to 10 as the assigned probability of default increases). The financial companies, institutions and associations (residual components of the consortium banks' portfolios) are analysed according to the criteria of a previous rating model with 8 performing rating classes from AAA to CC. Recent developments in the rating system have expanded the information set to include a further contribution of qualitative assessments in determining the rating class (qualitative questionnaire). The rating assigned to each counterparty is the result of a formalised rating attribution process.

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

Credit risk hedging and mitigation policies, strategies and processes for the ongoing monitoring of their effectiveness

In the process leading to the disbursement of credit, even in the presence of positive evaluations referring to the counterparty and the transaction, the Group acquires, whenever possible, additional guarantees aimed at mitigating the risk. Guarantees assumed to mitigate credit risk are closely monitored on a regular basis to verify that they maintain their initially determined value or the financial strength of the guarantor/surety provider. In the case of events that adversely affect the collateral framework, it is necessary to promptly reinstate the collateral and/or reduce the previously granted credit line. Mortgage collateral, mainly referring to the technical form of mortgages (particularly on residential property), appears to be prominent in the loans total. To a lesser extent, but still at significant levels, pledges of securities and/or money are also present.

A prudential haircut is applied to the value of collateral in relation to the variability of the pledge's market value over time; collateral is constantly monitored in order to check its current value against its initial value and to allow for intervention in the event of a reduction in value. The haircuts prescribed by internal regulations are applied to the acquisition of mortgage collateral. Personal guarantees consist mainly of sureties issued by individuals and companies. They are always valued on the basis of an assessment of the guarantor's assets, as part of the credit approval and/or renewal stages.

As a result of the government initiatives to support the economic fabric during the Covid-19 emergency, the guarantees issued by public entities such as MCC and Sace became particularly important.

The guarantees collected by the Group are drawn up on the basis of contractual templates, in line with industry standards and legal guidelines, which are approved by the competent corporate functions.

Market risk

Market risk arises from the effect that changes in market variables (interest rates, security prices, exchange rates, commodity prices) can have on the economic value of the Group's portfolio, which includes both assets held in the trading book and those in the banking book, i.e., operations associated with the commercial bank's core business and strategic investment choices. From the perspective of regulatory supervision, market risk arises from all positions included in the trading book, as well as from commodity and foreign exchange risk positions in the entire balance sheet.

Market risk management strategies and processes

The Group has a very limited exposure to market risks inherent in the "supervisory trading book". For management purposes, the approach of defining, measuring, managing and controlling market risks is also borrowed for portfolios of financial instruments, other than loans, classified in the banking book.

The management of the proprietary book mainly takes the form of the implementation of financial investment policies on the basis of the strategic guidelines defined by the Board of Directors and the operational management of proprietary portfolios and short-term liquidity, in euro and foreign currency, aiming to optimise the risk/return ratio. In this context, the Group implements its investment policy in a manner consistent with its capital objectives and desired risk profile in order to ensure efficient and prudent liquidity management with respect to the current situation and the strategic forecasts formulated.

The Structure and organisation of the market risk management function

The Group's organisational structure provides for the monitoring and management of risk based on an approach involving the separation of business and control functions. The Board of Directors approves the strategic guidelines and risk management policies, the CEO defines the structure of the internal control and risk system, consistent with the predefined risk appetite within the Risk Appetite Framework (RAF), ensures that the control functions have autonomy within the structure and are provided with adequate resources to fulfil their responsibilities. In this context:

- the Risk Management Department supports the General Management in risk governance, ensures the integrated risk management process, systematically identifying and analysing risk sources in accordance with the Group's strategies, plans and risk policies and in compliance with regulations;
- the Asset & Liabilities Risk Management Office, a specific organisational unit within the Risk Management Department, focuses on market risk activities: identification of the purposes of measurement models, definition, development and monitoring over time of the adequacy of model performance. In terms of monitoring, it is responsible for the measurement, control and reporting of market risk;
- the Finance Area carries out its activities in the monitoring and management of market risk in compliance with the limits and mandates assigned to it.

The scope and nature of market risk reporting and measurement systems

Routine monitoring activities are carried out with the help of specific IT procedures that incorporate quantitative evaluation models and through the processing of data from other front-office applications. Since risk-taking is the responsibility of the Finance Area, the monitoring of the indicators is performed, as a first-level control, on an ongoing basis by the Area itself, while the Risk Management Department performs second-level monitoring, activating any escalation procedures in the event of overruns in accordance with the "RAF Policy".

For the purposes of regulatory supervision, market risk measurement is applied to the trading book perimeter using standardised calculation methods, in accordance with Circular No. 285 of 2013, which allow the calculation of the overall capital requirement, based on the "building block" approach, according to which the overall requirement is obtained as the sum of the capital requirements for individual risks. As part of this methodological choice, the Group refers to the provisions of the regulations (Circular No. 285/13 Part Two - Chapter 9, Section I).

The Finance Department's trading activities are subject to operational limits as set out in the specific risk management policy. For management purposes, the following are used to measure market risks: internal models based on the VaR (Value at Risk) concept; specific consistency indicators that take into account particular areas of the proprietary securities portfolio's operations; sensitivity indicators (such as duration); and profitability indicators (stop losses). For some of the indicators being monitored, the Group has set threshold values, broken down into warning and tolerance thresholds in order to detect any anomalous data. The results of the monitoring are provided to the Finance Area and the Risk Management Committee on a daily basis for the business units and monthly for the Committee, respectively. These thresholds are defined within the Risk Management Committee, on the proposal of the Risk Management Department, and submitted to the approval of the Board of Directors for the elements included in the Group's Risk Appetite.

Operational risk

Operational risk is the risk of suffering losses resulting from inadequate or dysfunctional internal procedures, human resources and systems, or from external events. This includes, *inter alia*, losses resulting from fraud, human error, systems failure, contractual defaults and natural disasters. Operational risk includes legal risk, while strategic and reputational risk are excluded.

Strategies and processes for operational risk management

The Group has implemented a special procedure for the structured collection of information on prejudicial events that may result in operational losses. The purpose of this activity is to respond to internal management requirements concerning the "activation" of a process aimed at providing Top Management with evidence of the operational risks manifested within the Group.

The Operational Risk Management model (or Operational Risk Management - ORM macro-process) governs the roles and responsibilities of the functions involved in risk management. It also sets out specific monitoring limits of overall loss incurred at the level of each individual group entity (subdivided into "new event loss" and "economic effect loss"). The concept of "Significant Event" was also defined in order to focus monitoring and compliance on ordinary events.

The Group uses the above definition of operational risk within the approved Operational Risk Management Model and formalised in corporate regulations. In this context, a specific operational risk management macro-process (defined as ORM Framework) was defined, which consists of the following steps:

I. Identification: detection, collection and classification of information on operational risks;

II. Valuation: quantification in economic terms of the operational risks identified related to the company's operations;

III. Monitoring and reporting: structured collection and organisation of results in order to monitor the development of operational risk exposure;

IV. Mitigation and control: risk transfer and business process improvement.

The following operational processes have been formalised to support the operational risk management model:

- Loss Data Collection - structured process for the collection of operational losses realised within the Bank;
- Risk Self-Assessment - a structured process for assessing potential operational risks aimed at obtaining an overview of risk events in terms of potential and worst-case impact.
- Determination of the TSA capital requirement - the Banco Desio Group calculates the capital requirement using the "Traditional Standardised Approach" method. In order to comply with the relevant regulatory requirements, the Group has adopted an operational process and methodology for the allocation of the Relevant Indicator to the 8 lines of business set out in the regulations, and has also adopted a specific internal IT procedure.

The Risk Management Department, within the framework of what is defined in company regulations, has structured an adequate monitoring and reporting activity on operational risks, integrating it with the provisions of the supervisory regulations on the subject of coordination between control functions. With regard to the prejudicial events collected in the Database of Corporate Operational Losses (DBPOA), a reporting system capable of providing all the information concerning these events has been implemented some time ago.

The Structure and organisation of the operational risk management function

With regard to the Organisational Model of Operational Risk Management, the following figures have been introduced:

- ORM contact person: coincides with the Head of Department, Area, Office or Service (if they do not report directly to a Department - except for the General Management). It is responsible for implementing the ORM macro-process guidelines and mitigation actions within the reference structure, validating and certifying the Risk Self-Assessment questionnaires, governing the Loss Data Collection process within the reference structure.
- Risk Collector: coincides with the Area and/or Office Manager (if reporting to a Department). It has the task of verifying prejudicial events falling within the Loss Data Collection process; through the Risk Self-Assessment process, assessing the potential risks identified in the reference structure and identifying and proposing to the Risk Management Department the intervention strategies to mitigate them

With regard to business continuity, the Group ensured the business continuity of critical and system processes through the identification of business continuity resources and the possibility of smart working, providing all identified personnel with laptops, virtualised workstations and smartphones. Tests were also carried out to ensure the correctness of procedures in the following areas: internal information systems, external systems (i.e. IT outsourcer Cedacri S.p.A.), and power supply systems. This crisis response methodology is also applied by the subsidiary Fides.

In order to guard against the risk of offences being committed pursuant to Legislative Decree No. 231/2001 "Regulations on the administrative liability of legal persons, companies and associations, including those without legal personality", the Group Companies have adopted a prevention organisational model. Supervision of the effective implementation of these models has been delegated to a specific internal body.

The scope and nature of operational risk reporting and measurement systems

From an operational risk perspective, the following periodic monitoring activities are carried out and reported to the Parent Company's Risk Management Committee:

As far as "ordinary" events are concerned:

- monitoring of the overall limit of reported Gross Operating Losses (taking into account both new events and changes in the value of losses related to events already reported) and the overall New Events limit;
- analysis of gross and net losses per event;
- analysis of the number of incidents detected per event;
- variance analysis of total losses and detected/recorded events;
- analysis of loss trends by month (Parent Company) and quarter (Parent Company and Fides);
- analysis of the findings of the Risk Self-Assessment process.

With regard to material events, an analysis is conducted of the events recorded since the beginning of the year in terms of Gross Loss, no. of events and average loss.

With the use of the TSA method for calculating operational risk, specific processes were introduced to ensure the reporting of operational losses to the Bank of Italy.

Operational risk hedging and mitigation policies, strategies and processes for the ongoing monitoring of their effectiveness

As a further form of mitigation, the Group has taken out appropriate insurance coverage to cover certain significant operational risks, and implements appropriate corrective actions should the analysis reveal the need to intervene.

Cyber risk

IT risk is the risk of incurring economic, reputational and market share losses in connection with the use of IT (Information and Communication Technology). In the integrated representation of business risks for prudential purposes (ICAAP), this type of risk is considered, according to specific aspects, among operational, reputational and strategic risks.

Cyber risk management strategies and processes

The Group has implemented a specific operating procedure consisting of a macro-process and control activities put in place for the identification, assessment, monitoring, reporting, mitigation and control of cyber risk. These activities have the additional goal of responding to internal management needs in terms of "activating" a process aimed at providing senior management with evidence of the IT risks that have arisen within the Group.

The Group uses the above definition of cyber risk within the approved Cyber Risk management model and formalised in corporate regulations. In this context, a specific risk management process has been defined, which consists of the following steps:

I. ICT risk identification: continuous detection of ICT threats to which the Group is exposed, tracing of threats to existing or to be defined risk scenarios, determination of the Asset Catalogue in use at the Group.

II. ICT risk assessment: cyber risk assessment, assessment of residual cyber risk and preparation of reports (i.e. cyber risk summary report).

III. Monitoring and reporting: analysis and control of the results highlighted by the IT risk management system in order to continuously monitor the information deriving from the IT risk assessment and the monitoring of specific KRIs defined in this area (subject to monthly reporting under Risk Limits Monitoring).

IV. Mitigation and control: adoption of appropriate treatment strategies (e.g. mitigation, insurance transfer) defined on the basis of the findings of identification, assessment and monitoring.

The Risk Management Department, within the framework of what is defined in company regulations, has structured an adequate monitoring and reporting activity on cyber risks, integrating it with the provisions of the supervisory regulations on the subject of Coordination between control functions. With regard to the events that could generate a significant increase in the Group's IT risk, detected in the context of periodic assessment activities and the monitoring - on an ongoing basis - of a system of IT risk indicators, appropriate reporting methods have been identified, formalised in the Risk Management Department's Reporting and in the Summary IT Risk Assessment Document, drawn up annually and re-performed quarterly.

In compliance with the specific requirements of the relevant external regulations, on an annual basis, the Risk Management Department carries out a specific analysis of operational and security risks in the area of payment systems. This analysis is formalised in a special report that is sent to the Bank of Italy.

With reference to the main operational and organisational safeguards currently in place to ensure data security and protection, in addition to specific ICT Risk Assessment activities, the Group has:

- a process of assessment of third parties and the organisational and technological safeguards they put in place to ensure, among other aspects, IT security and business continuity within the scope of the services provided both at the contract stipulation stage and throughout the entire life cycle of the relationship;
- a DPIA (Data Protection Impact Assessment) process, aimed at assessing the necessity and proportionality of privacy processing, evaluating and managing any risks to the rights and freedoms of data subjects, and establishing the need to implement mitigation measures in the face of any shortcomings found in the existence and effectiveness of adequate physical, organisational and technological safeguards;
- internal training on data protection regulations and how to process and protect data;
- anti-fraud procedures being progressively strengthened with respect to the evolving dynamics of cyber-attack techniques;

- threat alerting systems also through the use of SOC - Security Operation Centre - services by specialised operators. A service incorporating an advanced computer application with an Intrusion Detection System and a component that makes use of machine learning techniques to group devices on the network into groups (clusters) that are homogeneous in terms of behaviour and support the detection of anomalous phenomena and generate alerts was also recently acquired;
- a daily monitoring service of ICT security performance by means of a rating system (external evaluation by a specialised operator widely used worldwide).

The Structure and organisation of the information risk management function

With regard to the Organisational Model of Information Risk Management, the following figures have been introduced:

- User Supervisor: A corporate figure, identified in the Heads of the corporate structure (Management/Area/Office), who formally assumes responsibility for each system or application, representing the users and in relations with the functions in charge of development and technical management, formally validating and accepting the residual risk emerging from the analysis.
- End User: User delegated by the User Supervisor to fill in the Resource Criticality Questionnaires.

In compliance with Bank of Italy regulations (formerly Circular 285/2013 Part I, Title IV, Chapters 4, 5) the Group has:

- Security Policy;
- Internal regulations in the areas of incident management, Asset Catalogue management, Change and IT risk management logical access management, network security, vulnerability management, etc.
- Information and Payment Security Risk Assessment Methodology.
- KRI Cyber Risk Monitoring and Reporting Methodology

The scope and nature of cyber risk reporting and measurement systems

In the area of IT risk, the following periodic monitoring activities are carried out and reported to the Parent Company's Top Management:

- monitoring of the ICT Risk indicator of the RAF, both on a quarterly basis (i.e. outcome of the ICT Risk summary report and subsequent updates) and when the level of risk changes as a result of specific assessments on one or more ICT resources;
- monitoring of the synthetic cyber risk indicator resulting from the analysis and aggregation of individual cyber risk indicators (KRIs).

Cyber risk hedging and mitigation policies, strategies and processes for the ongoing monitoring of their effectiveness

As a further form of mitigation, the Group has taken out appropriate insurance to cover certain significant cyber risks.

Other risks

Concentration risk

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

As far as management policies and processes are concerned, the Group's lending business operates under a policy of fractioning its loan portfolio. This fractioning is guaranteed by business development, in line with the guidelines defined in the Strategic Plan, aimed at local economies structured mainly in the retail, small business and small and medium-sized enterprise markets and, to a lesser extent, towards corporate enterprises. These guidelines are formalised in the Credit Policy, which identifies, among the basic principles for guaranteeing proper management of the loan portfolio, the fractioning of risk among multiple companies operating in different sectors of economic activity and in different market segments. As part of the monitoring activities carried out by the Risk Management Department and the Credit Department, concentration risk is monitored for groups of connected customers, for individual exposures and for business sectors. During the issuance of new products/services, the Product Approval process makes provision for the intervention of the various corporate functions, each according to their respective competences, also in order to achieve a prior general analysis of the concentration risk to which the Group would be exposed in the performance of its commercial action.

The interest rate risk of the banking book

Interest rate risk arising from non-trading activities is the current or future risk arising from adverse interest rate movements affecting interest rate-sensitive instruments.

Changes in interest rates have an impact:

- on the earnings result as they change the expected interest margin over a given time horizon;
- on the economic value as a result of changes in the present value of future cash flows of assets, liabilities and off-balance sheet items.

Interest rate risk management strategies and processes for the banking book

Within the Group, Asset & Liability Management (ALM) processes are applied in order to identify and measure the impacts ("sensitivity") resulting from changes in the interest rate structure on the expected financial margin and the economic value of assets, relative to the banking book. With regard to the economic value of the assets ("EV sensitivity"), the assumption of a change in the rate curve is applied, with an instantaneous shock, measuring the difference found in the present value and comparing these changes with the economic value of the assets. With regard to the expected financial margin ("NII sensitivity"), the change over a twelve-month (annual) time horizon is estimated under the assumption of a deterministic rate curve shock. The estimates are conducted with a view to static analysis, i.e. assuming the invariance of the capital structure in terms of the set of assets and liabilities and their financial characteristics (rates, spreads, duration).

For the purposes of regulatory supervision, the Group uses the calculation methodologies set forth in the reference regulations, Circular No. 285 of 2013 (Part One, Title III, Chapter 1, Annex C and C-bis) and in compliance with the criteria defined by the EBA guidelines (ABE/GL/2018/02).

The Structure and organisation of the banking book interest risk management function

The Group's organisational structure provides for the monitoring and management of risk based on an approach involving the separation of business and control functions. The Board of Directors approves the strategic guidelines and risk management policies, the CEO defines the structure of the internal control and risk system, consistent with the predefined risk appetite within the Risk Appetite Framework (RAF), ensures that the control functions have autonomy within the structure and are provided with adequate resources to fulfil their responsibilities. In this context:

- the Risk Management Department supports the General Management in risk governance, ensures the integrated risk management process, systematically identifying and analysing risk sources in accordance with the Group's strategies, plans and risk policies and in compliance with regulations;
- the Asset & Liabilities Risk Management Office, a specific organisational unit within the Risk Management Department, is focused on activities relating to the interest rate risk of the banking book: identification of the purposes of measurement models, definition, development and monitoring over time of the adequacy of model performance. In terms of monitoring, it is responsible for measuring, controlling and reporting on the interest rate risk of the banking book.

The scope and nature of the banking book interest risk reporting and measurement systems

To determine the exposure to interest rate risk on the banking book, the Group measures the potential impact on both the economic value and the interest margin, considering different scenarios of changes in the level and shape of the yield curve, in accordance with the supervisory regulations and respecting the criteria defined by the EBA guidelines with the application of the minimum floor to the post-shock rate.

Exposure to economic value

Consistent with its membership of Regulatory Class 2, the Group adopts an approach that incorporates certain evolutions from the application of the simplified methodology proposed by Circular No. 285.

The main modelling assumptions refer to the use of management data, performed on the basis of the findings of the internal re-pricing gap model and the application of a statistical-behavioural model for items without contractual maturity.

The behavioural estimation model is applied to the on-demand items (assets and liabilities) of ordinary customers with the aim of quantifying the degree of responsiveness of rates on on-demand items with respect to market rates and to recognise the persistence of on-demand volumes over time, representing them as a source of medium/long-term funding, estimating a stable (core) portion and the related amortisation profile, represented in financial terms as equivalent to two portfolios of term deposits, one at a fixed rate and the other at a floating rate. The decay/re-pricing profile described by the volume model is supplemented by a re-pricing profile derived from the rate analysis model: by relating sight item rates to market rates, the extent to which changes in the market rate explain changes in the sight item rate and how and when sight item rates adjust to market rates (stickiness effect) is identified.

The average maturity of modelled demand deposits is well below 5 years, while the maximum maturity is conservatively set at 15 years consistent with the profile of commercial MLT assets. For active sight deposits, the maximum maturity is very short and the average term is well under five years.

The exposures resulting from the re-pricing gap model, for each time band, are multiplied by the risk weights as prescribed in Circular No. 285. The sum of the net exposure of all bands after applying the assumed rate shock represents the change in economic value.

Net interest income exposure

Also in this area, the Group adopts an evolutionary approach to the application of the simplified methodology proposed by Circular No. 285, in line with what has been developed for the determination of internal capital.

The Group has an internal ALM model to measure the impact of changes in the interest rate structure on net interest income. Therefore, for each repricing-sensitive ratio over the time horizon under analysis, the change in the net interest income resulting from the application of rate shocks is calculated starting from the effective repricing date and assuming constant volumes until the end of the simulation period.

The interest rate risk is mainly managed through a natural hedge strategy; however, the Group engages in cash flow hedging, with hedge accounting, with the objective of stabilising the cash flows of the hedged instruments through the flows of the hedging instrument.

Derivatives are used as hedging instruments, represented by Interest Rate Swaps (IRS) used to hedge interest rate risk only.

Liquidity risk

Liquidity risk relates to the inability to meet one's payment obligations due to the inability to raise funds on the market (funding liquidity risk) or to dispose of assets (market liquidity risk).

The Group's liquidity risk can be generated by internal factors, i.e. factors arising from adverse events specific to the bank and resulting in a loss of confidence in it by the market, and exogenous factors, i.e. caused by market shocks not directly controllable by the bank.

Liquidity risk is understood as the difficulty (or impossibility) of finding the funds to meet payment commitments: risk implicit in the very structure of the bank's assets and liabilities due to maturity transformation, such that the profile of cash outflows is not perfectly offset by the profile of cash inflows; risk that future events may require a significantly higher amount of liquidity than previously planned by the bank.

Liquidity risk management strategies and processes

The Group's internal liquidity risk management and control system is developed within the framework of the Group's Risk Appetite Framework and in compliance with the maximum liquidity risk tolerance thresholds approved therein, which establish that the Group must maintain an adequate liquidity position to cope with periods of stress, including through the establishment of adequate liquidity reserves represented by marketable securities, usable in term loan transactions and/or refinanciable with the ECB. Specific Risk Policies describe the risk management process consisting of the set of rules, procedures and organisational structures aimed at enabling the identification, measurement, management and monitoring of liquidity risk originating from both market and internal Group factors.

The Structure and organisation of the liquidity risk management function

The Group's organisational structure provides for the monitoring and management of risk based on an approach involving the separation of business and control functions. The Board of Directors approves the strategic guidelines and risk management policies, the CEO defines the structure of the internal control and risk system, consistent with the predefined risk appetite within the Risk Appetite Framework (RAF), ensures that the control functions have autonomy within the structure and are provided with adequate resources to fulfil their responsibilities. In this context:

- the Risk Management Department supports the General Management in risk governance, ensures the integrated risk management process, systematically identifying and analysing risk sources in accordance with the Group's strategies, plans and risk policies and in compliance with regulations;
- the Assets & Liabilities Risk Management Office, a specific organisational unit within the Risk Management Department, is focused on liquidity risk activities: identification of the purposes of measurement models, definition, development and monitoring over time of the adequacy of model performance. In terms of monitoring, it is responsible for the measurement, control and reporting of liquidity risk;
- the Finance Area conducts its activities within the limits and powers assigned to it in the management of daily liquidity, the liquidity buffer and counterbalancing capacity.

The scope and nature of liquidity risk reporting and measurement systems

The overall model for the management and monitoring of liquidity risk is divided into distinct areas, differentiated according to the reference perimeter, time horizon and frequency of analysis.

With regard to short-term liquidity, measures are taken to estimate liquidity needs over a three-month time horizon.

For the purposes of supervisory regulations, the Group uses the calculation methods and frequencies provided for by the regulations (Circular No. 285) to calculate short-term liquidity indicators (LCR - Liquidity Coverage Ratio), structural liquidity indicators (NSFR - Net Stable Funding Ratio) and Additional Liquidity Monitoring Metrics (ALMM).

For management purposes, liquidity risks are measured using an internal short-term liquidity imbalance model (operating liquidity) that provides for the allocation of cash flows on a time scale divided into residual maturity bands from 1 day to 3 months; a "counterbalancing capacity" model that allows for the integration of operational liquidity with all those assets that can be readily utilised both to be eligible for refinancing with the ECB and to be disposed also through RePo transactions on the interbank market; consistency indicators that take into consideration types of assets that can be readily liquidated or used as financial collateral; specific intra-day liquidity indicators.

For some of these indicators, the Group has set limit values, broken down into alert and warning thresholds, while for others it periodically monitors their levels in order to detect any anomalous data. The Group has defined a scheme for managing limit overruns by preparing both a series of actions and the involvement of the corporate bodies in charge of risk management and control.

The main safeguard against liquidity risk, in order to cope with liquidity stress situations over a 1-month time horizon, is the maintenance of an adequate liquidity reserve, consisting of financial assets that can be easily and quickly liquidated or eligible as collateral in refinancing operations with the European Central Bank. With this in mind and in order to strengthen the short-term liquidity risk profile, the Group holds a reserve of highly liquid assets (HQLA - High Quality Liquid Assets). With regard to requirements with a longer horizon, the Funding plan is the instrument by which objectives and activities are defined that are consistent with short-term (12 months - budget) or medium-term (3 years - Business Plan) needs and with maintaining structural balance. The Funding Plan is prepared annually as part of the overall budgeting process.

The analysis of any deviations of the actual data from the forecast, due to causes related to the market situation and/or customer behaviour, allows for the timely identification of possible corrective actions to be taken. The Group tends to be less exposed to funding-related liquidity risks, since it does not systematically resort to more unstable sources of funding, but develops a strategy centred on both maintaining "retail" funding, which has been characterised over time by its stability, and increasing funding through internal and traditional channels. The use and development of secured market-oriented forms of financing (e.g. covered bonds, TITROs) allow for greater diversification and stability.

Residual risk

Residual risk is the risk that the credit risk mitigation techniques used by the bank will be less effective than expected.
Guarantees are intended to reinforce the principle of the main obligor's capital liability in that they aim to ensure greater certainty of fulfilment of obligations, i.e. greater effectiveness of enforcement actions in the event of default. They constitute, from an economic point of view, a subsidiary element of the secured credit and as such must be considered when assessing the party to whom credit is to be granted; it is therefore essential always to consider that the main obligor constitutes the primary source of repayment of the credit granted. Guarantees, in order to be useful for the recovery of the credit, must meet the requirements of legal unimpeachability and adequate economic content; to this end, the guarantee deeds must rigorously comply with the specific relevant regulations, while as regards the economic content of the guarantee, it must be verified that they are sufficient throughout the entire relationship. As part of the customer borrowing process, the proposing bodies submit to the decision-makers the guarantee required from the borrowing counterparty. The decision-maker comes to an overall judgment of the position and assesses that the guarantee is widely marketable and not difficult to enforce.

From an operational point of view, in the case of the assumption of personal, financial collateral and insurance guarantees, the Credit Department proceeds to confirm the validity in the Guarantees procedure following their formal control.

With regard to mortgage guarantees, there is a confirmation process in the IT procedures by the Special Credit Department. The Group, through the Credit Department and the Origination and Monitoring Area, ensures the maintenance of collateral against outstanding credit in the processes of granting/renewal of loans and monitoring/performance control. This supervision is attributable to the typical tasks of monitoring, while the NPL Area is responsible for the management of impaired loans. The latter also provides monthly analyses of the recovery data on impaired loans (including the mitigating effect of the guarantee backing the loan). The criteria for assigning loss forecasts on impaired loans provide for doubtful outcomes broken down according to the type of collateral backing the loan: mortgage collateral, financial collateral, personal collateral. For mortgage-backed loans, the doubtful outcome is broken down according to the updated value of the collateral and the Loan To Value (LTV).

In order to ensure compliance with regulatory eligibility requirements, the Group uses a specific IT procedure to manage information on exposures secured by residential and non-residential real estate. With regard to collateral/financial guarantees, as already explained, a management process is envisaged with particular reference to controls aimed at ensuring eligibility. The latter are ensured by an IT procedure, managed by the Credit Department, which monitors compliance with specific requirements (correlation, fair value and separateness) through a detailed set of dedicated controls.

The eligibility check procedure (mortgage or otherwise) flags up any collateral that does not meet all the parameters listed above. This, however, does not affect the validity of the guarantee, which may actually be properly constituted from a legal perspective and thus be fully valid in the event of enforcement. The purpose of the procedure is to verify eligibility and then assess it for capital requirement mitigation purposes.

As part of its prospective credit risk analysis activities, the Risk Management Department carries out "what if" analyses, also considering the degree of effectiveness of both mortgage and collateral/financial guarantees. In particular, the Risk Management Department communicates to the corporate functions involved in the guarantee management process the results of its own analysis of the capital impact on the eligibility of guarantees. Reporting covers: a) the capital absorption that would result from not being eligible; b) the amount of exposures and capital absorption of items classified as ineligible with details of the reasons; and c) the capital absorption that would result from being fully eligible. With a view to better monitoring of mortgage guarantees against positions classified as unlikely to pay and non-performing loans, the Risk Management Department periodically verifies compliance with the correct application of the policy for the coverage of impaired loans, within the scope of which specific application criteria are envisaged for exposures guaranteed by real estate according to Loan to Value.

Strategic risk

Strategic risk is the current or prospective risk of a decline in profits or assets resulting from changes in the operating environment or from erroneous business decisions, inadequate implementation of decisions, or lack of responsiveness to changes in the competitive environment. Within the framework of management policies and processes, the boards of directors of the Parent Company and subsidiaries, among other powers provided for by law and by the articles of association, determine the policies that affect the general management of the Group's and individual companies' business by defining their respective strategic lines. In this context, multi-year strategic plans and annual budgets are prepared; these documents are periodically analysed by top management. In order to ensure careful monitoring and control of this type of risk, the Group has also defined a process that combines the needs of business management with those of prudent and conscious risk management. In order to monitor the medium- to long-term economic sustainability of the Business, specific indicators have been identified and monitored within the RAF covering the following issues: Derisking and Lending Profitability, Efficiency Recovery Operating and Service Model and HR sustainability.

Reputational and non-compliance risk

Reputational risk is the current or prospective risk of a decline in profits or assets resulting from a negative perception of the bank's image by customers, counterparties, bank shareholders, investors or supervisory authorities. The risk of non-compliance is the risk of incurring judicial or administrative sanctions, significant financial losses or reputational damage as a result of violations of mandatory (statutory or regulatory) or self-regulatory rules (e.g. articles of association, codes of conduct, codes of corporate governance). In order to monitor the evolution of reputational risk, which by its very nature is a risk defined as "non-measurable", the Group has identified indicators divided into several monitoring areas (e.g. Legal, Anti-Money Laundering and Tax Credits, etc.) that allow the evolution of this risk to be monitored over time. These indicators are monitored on a quarterly basis for all Group entities. The Group also has organisational safeguards in place to deal with these risks. The organisational safeguards adopted by the Group to protect against reputational risk can be found in specific provisions set out in various organisational and regulatory documents approved by the Board of Directors and represented by the Code of Ethics, the RAF, the Anti-Money Laundering Policy and the Compliance Risk Management Policy.

Conduct risk

Conduct Risk is identified as a sub-category of Operational Risk and more specifically defined as "the current and prospective risk of losses resulting from cases of inappropriate offer of financial services, including cases of inappropriate conduct (wilful misconduct/negligence) on the part of the Bank".

With regard to the governance of Conduct Risk, the latter is part of the more generic operational risk process. In particular, it should be noted that the operational losses and risk assessment scenarios related to Conduct Risk are brought under Event Type 1 - Internal Fraud and Event Type 4 - Customers, Products and Business Practices.

In order to contain and mitigate Conduct Risk, in compliance with the external regulations of reference, the Group has defined specific Policies concerning the scope of the Mifid financial services offered to customers relating to budget issues; financial disclosure; incentive policies; pricing of financial instruments; order execution; record keeping and classification of the degree of risk, holding period, liquidity and complexity of products. Operational processes relating to product approval; placement of banking, insurance and financial products; securities custody and administration; securities trading; GPM/GPF management and conflicts of interest were regulated and standardised.

Country risk and transfer risk

Circular No. 285 of 17 December 2013 defines *country risk* as the risk of losses caused by events occurring in a country other than Italy. The concept of country risk is broader than that of sovereign risk in that it refers to all exposures regardless of the nature of the counterparties, whether they are individuals, companies, banks or governments.

Circular No. 285 of 17 December 2013 defines *transfer risk* as the risk that a bank, exposed to a borrower in a currency other than the currency in which it earns its main sources of income, realises losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

The Group's activity relating to transactions exposed to country and/or transfer risk is to be considered limited and mainly relates to operations in support of companies carrying out international trade transactions and interbank transactions with foreign credit institutions. In both of these cases, internal procedures are in place to assess the foreign banking counterparties with which business is conducted; specifically, a system of counterparty assessment and application of reliability limits is used.

From a country risk perspective, with regard to commercial transactions with ordinary customers, the prevailing case can be traced back to "contract advances/invoices/letters of credit for export" transactions. In this case, the risk is identifiable in the non-collection of the advance due to a blockage of currency transfers by the country in which the commercial counterparty (foreign importer) of the bank's customer operates; this risk is monitored by the Foreign Office.

As far as transfer risk is concerned, the risk identified on commercial operations is essentially related to import financing transactions. In this case, the loan granted in a currency other than the euro presents the risk arising from the inability of the customer/importer to obtain supplies in the same currency for the repayment of the loan contracted with the bank. As part of the broader assessment of creditworthiness, the assessment of the risk in question is referred both to the proposers and to the decision-makers responsible for granting the specific credit line

Basis risk

Circular No. 285 of 17 December 2013 defines basis risk, as part of market risk, as the risk of losses caused by misaligned changes in the values of similar but not identical positions.

As part of the market risk on the FVTPL (Assets Held for Trading - Fair Value Through Profit or Loss) portfolio, following the creation of a specific "trading desk" for the securities portfolio owned by the Parent Company, there is the presence of derivative positions, mainly futures/options on equity indices and/or debt securities, also contrary to the positions taken on the underlying assets. However, given the Group's management and strategic focus on positions in debt securities (the contribution of equity securities and/or derivatives is entirely marginal), transactions of this kind are put in place for specific trading purposes and do not constitute transactions offsetting opposite positions that would generate a basis risk.

Sustainability risk management

The Group is aware of the importance of identifying, assessing, preventing and reducing potential risks, including those of a non-financial nature, i.e. the socio-environmental risks generated and suffered as a result of the following aspects:

- Environmental and climate change risk: related to direct impacts such as the use of energy resources (renewable and non-renewable sources), greenhouse gas emissions, waste production and its disposal, consumption of raw materials instrumental to one's own activity (paper and toner), violation of environmental and sector regulations.
  At the European level, the Action Plan for Financing Sustainable Growth places particular emphasis on the systemic importance of the banking/financial sector in enabling the transition to a low-carbon system and a climate-resilient economy. Indeed, the banking sector is involved in potential indirect climate-related risks to the extent that the financing granted and investments made are directed towards economic activities that contribute to climate change (e.g. in terms of greenhouse gas emissions).
  The banking sector itself can, however, take a proactive role in promoting the transition to a low-carbon and climate-resilient economy by increasing awareness of its role in the transition by incorporating an assessment of the potential climate change impacts related to the credit and investment policies put in place.

- Social risk: linked to the relational aspects with customers and more generally with the community, with particular regard to the economic and social development of local communities, in respect of which the Group wants to be a reliable and authoritative representative by means of honest and rigorous conduct, attentive to the needs of its stakeholders, aimed at maintaining profitability-solidity inspired by sustainability issues and therefore lasting over time, in order to create shared value with which to contribute to the well-being and progress of the community itself. Risk also linked to the granting of loans, investments and supply relationships with counterparties characterised by non-resilient economic models with social vulnerability profiles, the possibility of offering financial products or services that are not adapted to the changing socio-economic or regulatory environment, etc. Risk associated with the processing of customers' personal data;
- Personnel-related risk: related to the management of employees and similar subjects, including actions taken to protect health and safety in the workplace, to ensure gender equality, the implementation of specific talent attraction programmes, the limitation of situations of inadequate professional profiles, preventing the loss of key figures, as well as the measures aimed at implementing the conventions of international and supranational organisations on the subject, and the ways in which dialogue is carried out with the social partners, also related to the granting of financing, investments and supply relations with respect to counterparties characterised by non-resilient economic models with profiles of vulnerability in personnel management;
- Risk of non-respect of human rights: relating specifically to the non-respect of human rights, including workers' rights, and/or relating to attitudes and actions that are in any case discriminatory, also as a result of the granting of loans, investments and supply relationships with counterparties characterised by non-resilient economic models with vulnerability profiles linked to respect for human rights. This also includes the risk of personal data breaches, whereby the unlawful use of the data provided by the various categories of data subjects must be prevented by adopting appropriate technical and organisational solutions to protect them;
- Risk in the fight against active and passive corruption: i.e. relating to the possible occurrence of events and/or circumstances of active and passive corruption, fraud, money laundering or financing of terrorism (e.g. due to adaptations to the reference legislation or inadequate training of personnel) also in relation to the granting of loans, investments and supply relationships with counterparties characterised by non-resilient economic models with vulnerability profiles in the fight against active and passive corruption.

In a process of continuous improvement in the effective and evolutionary management of the stimuli deriving from the increasingly intense regulatory evolution of the sector, in 2018 the Banco Desio Group, together with some of the main Italian banking groups, became a promoter of the project called "Non-financial disclosure and risk management related to sustainability issues", a structured analysis on the approach adopted for the management of disclosure requirements related to ESG risks, through the consultation of a panel composed of the main parties involved, i.e. CSR functions and Risk Managers of the banks participating in the project, as well as the main Italian banking groups and opinion leaders, also taking into account market best practices.

Closely linked to these project initiatives is also the internal project, also launched in 2018, which saw the Banco Desio Group develop a first organic mapping of the risks envisaged by Legislative Decree 254/2016 within the corporate risk management policies in line with the provisions of the prudential supervisory regulations and taking into account the specific policies on sustainability that the Parent Company has adopted in the meantime.

With respect to the preliminary identification of Environmental, Social and Governance (ESG) risks, correlated to the business risks defined in the Group's internal policies, at the end of a specific project carried out in 2021, the Banco Desio Group defined an action plan, called "Masterplan E(SG)", which, among the defined areas of intervention, also makes provision for the development of the specific issue of environmental-climate risk governance and management. The transformation plan is described in chapter "4. Sustainability for the Banco Desio Group" of the non-financial statement as at 31 December 2022.

Table EU OVB: Disclosure on governance arrangements

The Board of Directors of Banco Desio in office, currently made up of 11 directors, was appointed by the Shareholders' Meeting of 23 April 2020 (with the exception of one director, appointed by the Shareholders' Meeting of 4 October 2021 to replace a deceased director) and expires with the Shareholders' Meeting for the approval of the financial statements as at 31 December 2022 scheduled for 27 April 2023. One Independent Director was elected from a list submitted by a minority shareholder. According to the special regulations for banks with listed shares, directors must meet specific requirements under penalty of disqualification from office.

a) Number of directorships held by members of the management body

The Board of Directors of Banco Desio has set out, in its Internal Regulations, certain general criteria relating to the accumulation of directorships.

Without prejudice to specific provisions on the matter (with particular reference to the provisions of the law concerning the "prohibition of interlocking" between competing banking, financial and insurance groups), these general criteria are to be considered non-exhaustive and the occurrence of non-compliant situations does not in itself entail the forfeiture of the office; the Board of Directors, in addition to carrying out, at least once every six months[4], a specific assessment of the aforesaid "prohibition of interlocking" in accordance with the application criteria issued by the Supervisory Authorities, reserves the right to assess, on a case-by-case basis, any non-compliant situations concerning the accumulation of office, without prejudice to the principle, enshrined in the Code, according to which it is left to the discretion of the interested parties to assess the appropriateness of accepting appointments, including to internal committees, exclusively "when they believe they can devote the necessary time to the performance of their duties".

All of the above, without prejudice to the more stringent rules introduced by the aforementioned MEF (Ministry of Economy and Finance) Decree for the Executives appointed after its entry into force (in the case of Banco Desio, such rules currently apply to the aforementioned Director Gerolamo Gavazzi and will be extended to all Executives with the renewal of the offices scheduled, as mentioned, with the Shareholders' Meeting of 27 April 2023).

Details of the number of directorships entrusted to members of the board, as well as their actual skills, knowledge and experience, are provided below:

Stefano LADO

Director since 1993 Chairperson of the Board of Directors since 2017 Executive: no, Independent: no.

Age

62

Training

Law degree with Masters commercial-banking.

Recent Positions/Activities

Chairperson since 2017 and member of the Appointments Committee of Banco Desio Brianza since 2020.

Director and ABI Executive Committee member since 2017.

Member of the ABI Small Banks Select Committee since 2020.

[4] The corporate bodies carry out an annual review of positions relevant to the regulations on the Prohibition of Interlocking, to be conducted by 31 March each year. In addition to the annual verification required by the above-mentioned regulations, the Banco Desio Group envisages, by virtue of an update to the Internal Interlocking Directorship Regulation carried out in 2022, an autonomous six-monthly verification of the positions of individual Representatives, to be carried out by 30 September of each year in a manner similar to that of the annual verification, in order to check whether any changes have occurred with respect to the findings of the annual verification.

General Partner of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a since 1991 (Chairperson from 2014 to 2017).

Cedacri Director (2010-2021).

Director and member of the Interbank Deposit Protection Fund Management Committee since 2010.

Board member of Festival dei Due Mondi Onlus Foundation since 2018.

Other professional experiences

Since 1988, he has held numerous directorships and Chairperson positions in various Banco Desio Group companies, including:

- Chairperson of the Board of Directors Banca Popolare di Spoleto S.p.A. (merged by incorporation into the parent company Banco Desio Brianza) (2014-2017);
- Chairperson of Anima SGR S.p.A. (1999-2008);
- Chairperson of Leonardo SGR SpA (2001-2006);
- President of the Supplementary Health Fund of the National Health Service 'Salute Chiara' (2010-2014);
- Director of C-Card S.p.A. (2012-2014).
- President of C-Global (2015-2020).

Alessandro DECIO

Chief Executive Officer and General Manager since 2020
Executive: yes, Independent: no.

Age

57

Training

Degree in Political Economy (Monetary Theory).

Insead - MBA Programme.

Recent Positions/Activities

Managing Director, General Manager and member of the Executive Committee of Banco Desio Brianza since 2020.

Director and Chairperson of the Human Resources and Remuneration Committee, member of the ESRB of Telepass SpA (Atlantia Group), an unlisted company controlled by Atlantia SpA (listed).

Director of Anthilia Capital Partners SGR (since June 2022).

Other professional experiences

He has held numerous positions, including:

- Chief Executive Officer and General Manager of SACE (2016-2019);
- Director of Mediobanca, Borsa Italiana, Fineco;
- Chief Executive Officer of ING Italy (2016);
- Group Chief Risk Officer of Unicredit Group (2012-2016);
- Numerous positions in foreign banks belonging to the Unicredit Group (2000-2016),
- Various positions at EBRD London and Imi International London/NewYork (1990-2000).

Graziella BOLOGNA

Director since 2014
Executive: yes, Independent: no.

Age

68

Training

Degree in Economics.

Recent Positions/Activities

Director and Executive Committee member of Banco Desio Brianza since 2014.

Other professional experiences

She began her career in the financial sector at the Istituto San Paolo in Turin in 1978 and subsequently held various positions in various securities brokerage firms.

Main offices held:

- Chief Executive Officer of Gemofin S.p.A. (1984-1986);
- Chief Executive Officer of Ecogest S.p.A. (1986-1990);
- Manager/Chief Financial Officer of Central Institute of Banks and Bankers (1990-1999);
- Head of the Finance Department of the Banco Desio Group (1999-2014);
- Director and Secretary General Assiom (2000-2009);
- Director of AcomeA SGR S.p.A. (2012- 2014);
- Director and Executive Committee Member of Banca Popolare di Spoleto S.p.A. (merged by incorporation into the parent company Banco Desio Brianza) (2014-2019).

Valentina CASELLA

Director since 2019
Executive: no, Independent: yes.

Age

43

Training

Law degree, University of Milan

Master of Laws (LL.M.), Columbia Law School

M.B.A., INSEAD

Recent Positions/Activities

Independent Director and member of the Committee for Transactions with Related Parties and Connected Persons since 2019, Chairperson of the Remuneration Committee since 2020 of Banco Desio Brianza.

Director and member of the Remuneration and Appointments Committees of Italmobiliare SpA (from 2021).

Director and Lead Independent Director of Arnoldo Mondadori Editore SpA (from 2021).

Lawyer (civil and corporate law).

Corporate consulting, corporate governance, extraordinary transactions, litigation/arbitration.

Other professional experiences

Corporate associate at the law firm Simpson Thatcher & Bartlett LLP - New York (2007-2012).

Ulrico DRAGONI

Director since 2020
Executive: no, Independent: yes.

Age

75

Training

Degree in Economics and Business

Diploma in Optics.

Recent Positions/Activities

Independent Director, member of the Remuneration Committee and member of the Committee for Transactions with Related Parties and Associated Persons of Banco Desio Brianza since 2020.

Founding member (2003) and Vice President (since 2013) of Fondazione Cassa di Risparmio Terni e Narni.

Optical company administrator and commercial structure coordinator of Umbria and Romagna.

Other professional experiences

He has participated in support initiatives for the preservation of local artistic heritage (Umbria) for Fondazione Sight First (since 1989).

He was awarded the honours of Commendatore della Repubblica (2011) and Cavaliere Emeritus (2007).

Cristina FINOCCHI MAHNE

Director since 2012
Executive: no, Independent: yes.

Age

57

Training

Economics degree - MBA

Recent Positions/Activities

Independent Director, Chair of the Audit, Risk and Sustainability Committee since 2020, previously member, member of the Appointments Committee since 2017 (Chair until 30.01.2022), of Banco Desio Brianza.

Director and Chair/Member of Board Committees of other listed companies (Maire Tecnimont SpA); Chair/Member of Scientific Committees (Centesimus Annus Foundation and Kindacom), and of Global Committees (Global Visionary Awards Selection Committee- WCD Foundation), Director/Chair of Board Committees of supervised companies (Do Value SpA), Contract Professor at Economic and Financial Faculties (Università Cattolica del Sacro Cuore di Milano, formerly La Sapienza University of Rome).

Banco Desio

Other professional experiences

She has been a Director/Chair/Member of Board Committees at other listed companies (including INWIT, Italiaonline, GHC, BF holding, Natuzzi, Elica, Trevi Finanziaria Industriale SpA) as well as Chair/Member of Advisory Committees (Urbe Retail Fund-Generali Real Estate sgr).

She has been working on ESG (Environmental, Social and Governance) sustainability since 1999.

She is Co-Founder of the Italian chapter of WCD Foundation of which she was Co-President (2012-2020).

She was a member of the Steering Committee of the Marisa Bellisario Foundation in Lombardy (2009-2014).

She was a member of government-appointed commissions at the Council Presidency (2012-2013).

Since 1999, she has been a speaker at national and international conferences on economic-financial and corporate governance issues.

Agostino GAVAZZI

Director since 1983
Executive: yes, Independent: no.

Age

77

Training

Engineering degree.

Recent Positions/Activities

Director since 1983, Chairperson Executive Committee since 2017 of Banco Desio Brianza.

General Partner since 1988 and Chairperson since 2017 of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a.

Other professional experiences

He has held the following positions, among others:

- Chairperson of Banco Desio Brianza (2002-2017).
- President/Director of several Associations/Foundations.

Tito GAVAZZI

Director since 2014
Executive: no, Independent: no.

Age

46

Training

Three-year diploma in Marketing and Business Communication.

Recent Positions/Activities

Director of Banco Desio Brianza since 2014 and member of the Risk and Sustainability Committee since 2021.

Director of Fides since 2011.

General Partner of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a. since 2015.

Other professional experiences

He has held the following positions:

- Member of the Executive Committee of Banco Desio Brianza (from 2014 to 2021).
- Director of Banco Desio Lazio (2011-2014).
- Director of Banco Desio Veneto (2007-2011).
- Director of Gedy SpA (2007-2014).
- Sole director in other companies.

Gerolamo GAVAZZI

Director since 2021
Executive: yes, Independent: no.

Age

79

Training

Degree in Economics.

Recent Positions/Activities

Director of Banco Desio Brianza and member of the Executive Committee from 2021.

Chartered accountant since 1971.

Statutory Auditor of Fluiten Italia SpA since 1998, Chairperson of the Board of Auditors of IMO SpA since 1997.

Director of Nuovi Orizzonti Srl since 1988.

Other professional experiences

He has held the following positions:

- Director and Chairperson of the Executive Committee of Banca Popolare di Spoleto (from 2017 to 2019).
- Director/Chairperson of the Board of Statutory Auditors/Executive Auditor in other companies, including Milano Assicurazioni SpA (Director from 1997 to 2002) and Salvatore Ferragamo SpA (from 2011 to 2017).

Giulia PUSTERLA

Director since 2020. Statutory Auditor from 2014 to 2017, Chairperson of the Board of Auditors from 2017 to 2020.
Executive: no, Independent: yes.

Age

63

Training

Degree in Economics.

Recent Positions/Activities

Independent Director, Chairperson of the Committee for Transactions with Related Parties and Connected Persons, member of Banco Desio Brianza's Risk and Sustainability Committee since 2020.

A chartered accountant since 1985, specialising in business crisis and restructuring and corporate and tax consultancy.

Banco Desio

Auditor since 1995.

Member of Boards of Directors and Boards of Statutory Auditors of several companies (also listed) including:

- Chair of the Board of Statutory Auditors of Tod's S.p.A. (since 2013).
- Director, Chair of the Risk Control Committee, member of the Remuneration Committee and of the Related Party Transactions Committee of Risanamento SpA (since 2015);
- Director of La Provincia di Como (since 2014);
- Chair of the Board of Statutory Auditors of Gepafin SpA (since 2020);
- Statutory Auditor of Palladio Holding SpA (since 2017);
- Statutory Auditor of MTS SpA (since 2020).
- Statutory Auditor of Geasar SpA (from 2021);
- Chair of the Board of Statutory Auditors of Be Cause Sicaf SpA (from 2021);
- Chair of the Board of Statutory Auditors of Italgas SpA (from 2022).

Judicial Commissioner and Liquidator, Bankruptcy Curator, Execution Delegate, for the Court of Como and Technical Advisor to the Judge.

She is a frequent speaker at conferences and seminars, particularly on corporate crisis law.

Other professional experiences

She was Chair of the Board of Statutory Auditors of Banco Desio Brianza from 2017 to 2020 (Standing Auditor since 2014).

She was a member of the Board of Statutory Auditors of Banca Popolare di Spoleto (merged into the parent company Banco Desio Brianza in 2019) from 2014 to 2019.

She was a member of the National Council of Chartered Accountants and Accounting Experts (2008-2012) and President of the Order of Chartered Accountants of Como (2003-2007).

She was a member of the Management Board of OIV.

She was a member of the Council of 'Insol Europe', a European association for the study of problems related to business crisis and reorganisation.

Laura TULLI

Director since 2020
Executive: no, Independent: yes.

Age

42

Training

Law degree.

Licensed to practice law.

Recent Positions/Activities

Independent Director, Chair of the Appointments Committee since 31.01.2022 (member until 30.01.2022), member of the Remuneration Committee of Banco Desio Brianza since 2020.

Partner/President/Company Director in family business in Umbria (industrial sector).

Banco Desio

Managing director of the Spoleto Valnerina territorial section of Confindustria Umbria since 2009 (President 2013-2018).

Other professional experiences

She has held the following positions:

- Independent Director Banca Popolare di Spoleto, merged by incorporation into the Parent Company Banco Desio Brianza (2017-2019).
- Member Advisory Board Umbro Territory for Banco Desio Brianza (2019-2020).
- Member of the Executive Board of Confindustria Umbria from 2013 to 2018 (Member of the Executive Board with responsibility for the 2016 Earthquake Emergency).

<u>Emiliano BARCAROLI</u>

Chairperson of the Board of Statutory Auditors since 2020
Age

50

Training

Degree in Economics.

Recent Positions/Activities

Chairperson of the Board of Statutory Auditors of Banco Desio Brianza since 2020.

Chartered Accountant, Auditor/Auditor, Auditor, Director, Liquidator at numerous companies.

Speaker in API (Terni Small Industry Association) training courses.

He has been a member of the Fondazione Cassa di Risparmio di Terni e Narni since 2010.

Other professional experiences

He has been involved in numerous extraordinary transactions (mergers, demergers, leverage buy-outs, transfers, advising in the presentation of composition agreements).

From 2010 to 2014, he was President of the Board of the Young Accountants Union of Terni.

From 2009 to 2012, he was a member of the Board of Directors of the Union of Chartered Accountants in Umbria.

<u>Rodolfo ANGHILERI</u>

Standing Auditor since 2002
Age

75

Training

Degree in Economics.

Current Positions/Activities

Chartered Accountant in Milan and Auditor.

Statutory Auditor of Banco Desio Brianza since 2002.

Statutory Auditor of Fides since 2007.

Chairperson of the Board of Statutory Auditors of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a. since 2004.

Banco Desio

Other professional experiences

Statutory Auditor, Chairperson of the Board of Statutory Auditors, Auditor, member of the Executive Committee and treasurer of several companies and associations.

Stefania CHIARUTTINI

Standing Auditor since 2020
Age

60

Training

Degree in Economics.

Recent Positions/Activities

Chartered Accountant in Milan.

Statutory Auditor of Banco Desio Brianza since 2020.

Trustee in bankruptcy, Judicial Commissioner, Liquidator, Judicial Administrator - Appointments by several Courts.

Chair of the Board of Statutory Auditors: United Ventures SGR, United Ventures One Sicaf Euveca SpA.

Director: Fiera Milano S.p.A..

Director of Illimity SGR (until 2022).

Statutory Auditor of S.E.A. S.p.A.

Chair of the Supervisory Board: Fondazione Accademia d'arti e Mestieri dello Spettacolo - Teatro Alla Scala, F2I SGR, RGI, KOS, ATM, AM InvestCo Italy, ARCELOR MITTAL Italia.

Other professional experiences

She has held the following positions:

- Offices of Statutory Auditor, Director (also extraordinary) and Liquidator of several industrial and financial companies (also listed on the Milan Stock Exchange).
- Offices related to crisis management of Banks and Sims appointed by the Treasury.
- Appointments and consultancy in civil, criminal, accounting and business crisis management.
- Member of the "Commission to draw up proposals for reform, appraisal and reorganisation of the discipline of insolvency procedures" (Ministerial Decree 28.01/2015 (Pres. Rordorf - Ministry of Justice.

b) Information regarding the recruitment policy for the selection of board members and their actual knowledge, skills and experience

On 15 December 2020, Decree No. 169 of 23 November 2020 was published in the Official Journal, containing the implementing regulation of Art. 26 TUB issued by the MEF (the "MEF Decree") which, after consulting the Bank of Italy[5], was called upon, as known, to identify in compliance with CRD4: a) the uniform requirements of integrity for all representatives; b) the requirements of professionalism and independence, graded according to principles of proportionality; c) the criteria of competence, consistent with the office to be held and with the characteristics of the bank, and of adequate composition of the body; d) the criteria of fairness, with regard, inter alia, to the representative's business relations, conduct towards supervisory authorities and sanctions or corrective measures imposed by the latter, restrictive measures relating to professional activities carried out,

[5] The relevant Supervisory Provisions were issued by the Bank of Italy on 4 May 2021.

and any other element likely to affect the representative's fairness; e) limits on the accumulation of offices for bank representatives, graded in accordance with principles of proportionality and taking into account the size of the intermediary; f) the grounds for temporary suspension from office and its duration. The relevant provisions shall apply to appointments after the date of its entry into force, i.e. 30 December 2020.

Following the introduction by the aforementioned Ministerial Decree No. 169/2020 of the "Fit&Proper Assessment", Banco Desio adopted the "Fit&Proper" Policy by Board resolution of 3 August 2021, most recently updated by Board resolution of 23 June 2022, which defines the substantive and procedural requirements regarding the suitability of both the overall Administrative Body (Board of Directors) and the Control Body (Board of Statutory Auditors) and of the individual Representatives, the time commitment for the role covered, the principles of honesty, integrity and independence of judgement, as well as the requirements of knowledge, competence and experience. The Policy also concerns the heads of the main corporate functions to the extent applicable to them[6]. The Policy has been implemented by the subsidiary Fides in the context of its management and coordination activities, which has adopted a similar document to the extent applicable to it.

The updating of the Policy consisted of the refinement of the quantitative parameters and qualitative criteria, also defined in monetary terms and as a percentage of the remuneration attributed for the office and for participation in Board Committees ("corporate remuneration"), defined *ex ante* in order to assess the significance of any commercial, financial or professional relationships and of any additional remuneration for the purposes of the independence of Banco Desio's Representatives pursuant to the Consolidated Law on Finance and the MEF Decree (see also the following paragraph), parameters and criteria that are now set forth in the new Annex A to the Policy. This refinement was suggested by the Independent Directors, was carried out with the support of a leading law firm and concerned in particular the introduction of differentiated criteria for commercial, financial or professional relations and for the "additional remuneration"[7]. This also corresponds to a specific recommendation of the Italian Corporate Governance Committee.

Verification of the requirements of the Representatives pursuant to the MEF Decree is the responsibility of the Board of Directors itself, within 30 days of appointment, in accordance with the procedure set forth in the Bank of Italy's Supervisory Provisions; in short, possession of the requirements is verified in a specific manner and resolved upon by the Board of Directors for each individual representative, with the abstention of the person concerned, on the basis of appropriate documentation produced by the representatives themselves (e.g.: certificates, attestations, curricula vitae, declarations in lieu of affidavits or certifications, declarations made by parent companies/bodies, etc.) and of a specific questionnaire ("tool") made available by the Bank of Italy and usable on a voluntary basis[8].

Information on the personal and professional characteristics of the Directors, as well as information on the possession of the requirements set forth in this paragraph, is published when lists are submitted for the renewal of corporate offices, in accordance with current Consob provisions.

Of the 11 Banco Desio Directors in office, most of whom were appointed by the Shareholders' Meeting on 23 April 2020, 5 qualify as independent, according to the specific provisions of Art. 147-ter and Art. 148 of the TUF as well as according to the

[6] The persons in charge of the Bank's main corporate functions are identified, pursuant to the MEF Decree, as the Managers:
- of the anti-money laundering function (Anti-Money Laundering Office),
- of the regulatory compliance function (Compliance Office),
- of the risk control function (Risk Management Department),
- of the internal audit function (Internal Audit Department), and in the Manager responsible for preparing the company's financial reports required by Article 154-bis TUF.

7 On this last point - also taking into account the current amount of the remuneration assigned by Banco Desio and its subsidiary Fides - it was deemed reasonable to indicate a threshold of 100% of corporate remuneration.

[8]Banco Desio used this "tool" to verify the requisites of the Executive Director Gerolamo Gavazzi, appointed by the Shareholders' Meeting of 4 October 2021 to replace the deceased Director Egidio Gavazzi and the new Head of the Compliance Office in office as of 19 May 2022. Similarly, the subsidiary Fides used a similar "tool" in the parts applicable to it as a financial company pursuant to Article 106 TUB (Consolidated Law on Banking), for the verification of the requirements of the new corporate bodies following their renewal by resolution of the shareholders' meeting of 31 March 2022.

criteria of the Corporate Governance Code[9]. The assessment of independence is the subject of a resolution of the Board of Directors specifically examining the individual positions of the directors on the basis of appropriate documentation available to the company or the information provided by the person concerned, who abstains from voting, and in all cases giving priority to substance over form. The assessments are provided for after the appointment, as well as in relation to the establishment of Committees in which the presence of a certain number of Independent Directors is required, on the occasion of the approval of the Board of Directors' Self-Assessment Report and the Corporate Governance Report (as well as whenever the Board of Directors deems it appropriate in relation to the possible occurrence of situations that may change the independent or non-independent status of one or more Directors).

At the time of the adoption of the Fit&Proper Policy, the quantitative and/or qualitative criteria to be used for assessing the significance of the relationships under review for the purposes of verifying independence (commercial, financial or professional relationships and additional remuneration) were also defined *ex ante*. It should be noted that a director is not considered independent:

(i) if, directly or indirectly (e.g. through subsidiaries or companies of which it is an executive director, or as a partner in a professional firm or consulting company), he/she has, or has had in the preceding three financial years, a significant commercial, financial or professional relationship:

- with the bank or its subsidiaries, or its executive directors or top management;
- with a person who, also jointly with others through a shareholders' agreement, controls the company; or, if the controlling company is a company or entity, with its executive directors or top management;

(ii) if he/she receives, or has received in the previous three financial years, from the bank, one of its subsidiaries or the parent company, significant remuneration in addition to the fixed remuneration for the office and to the remuneration provided for participation in the Committees recommended by the Code or provided for by the applicable regulations.

Failure to meet the requirements laid down in the applicable legal and regulatory provisions shall result in forfeiture of the position of independent member. This independent member may retain the position of non-independent member.

These criteria extend to the Control Body to the extent applicable to it pursuant to the TUF and the MEF Decree.

The Independent Directors participate in the work of the Board as well as in the activities of the advisory/proposal committees to which they belong (i.e. the Audit, Risk and Sustainability Committee and the Remuneration Committee, of which they constitute the majority component, as well as the Appointments Committee and the Committee for Transactions with Related Parties and Associated Persons, which are entirely made up of three Independent Directors)[10].

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[9] Pursuant to the aforementioned Circular No. 285, the Articles of Association require at least 1/4 of the members of the Board of Directors to meet the independence requirements prescribed by the provisions, including regulatory and/or supervisory provisions, in force and applicable at the time, as well as those adopted by the company in compliance with the recommendations of the CG Code. The actual number of 5 is therefore currently higher than the minimum number of 3. An independent director who loses the requirements of independence after appointment shall immediately notify the Board of Directors. Failure to meet the aforementioned requirements results in forfeiture of the position of independent director. If, following disqualification, the remaining number of independent directors of the body is sufficient to ensure compliance with the provisions establishing a minimum number of independent directors, the director who does not meet the aforementioned requirements remains a non-independent director.

[10] In accordance with the provisions of the Supervisory Provisions, the Independent Directors oversee the company's management with independent judgement, helping to ensure that it is carried out in the interest of the company and in a manner consistent with the objectives of sound and prudent management, acting as a counterbalance to the bank's executive members and management, and fostering internal dialogue within their body. The following is an excerpt of a Commentary contained in the former Code of Self-Regulation: "non-executive directors enrich the board discussion with expertise gained outside the company, of a general strategic or particular technical nature. These skills enable the analysis of the various topics under discussion from different perspectives and, therefore, contribute to the dialogue that is the distinctive prerequisite for a joint, considered and fully-informed decision. The contribution of non-executive directors is particularly useful on issues where the interests of executive directors and shareholders may not coincide, such as the remuneration of executive directors and the internal control and risk management system".

The Board of Directors approved an Internal Regulation for the Self-Assessment of Bodies in order to regulate the related process in compliance with the provisions of Circular No. 285, identifying in particular the methodologies to be used (mainly based on the completion of a specific questionnaire by each Director, as well as the conduct of a specific interview that complements the completion of the questionnaire) and the profiles to be analysed - at an aggregate level - with regard to the composition (professionalism, independence, etc.) as well as the functioning (operating practices, information flows, etc.) of the Board and the Committees established within it. This Regulation was revised on 8 February 2018 and most recently on 3 August 2021, providing, *inter alia*, for the prior involvement of the Appointments Committee in the procedure for selecting the consultancy firm appointed to support the self-assessment process.

As part of the initiatives aimed at updating knowledge relating to the business sector in which Banco Desio operates, corporate dynamics and their evolution, the principles of proper risk management, as well as the regulatory and self-regulatory framework of reference, a series of training sessions and in-depth meetings have been held since 2012, appropriately diversified in terms of subjects and speakers (including managers, advisors, lawyers, economists and highly qualified journalists).

From time to time, the decision was taken to focus these sessions:

- on issues relating to the concrete application to the banking situation of Legislative Decree 231/2001 concerning the administrative liability of companies and entities, also with reference, most recently, to the tax offences included from 2019 within the scope of the same Legislative Decree. and to offences related to subsidised credit under the provisions issued in 2020 and 2021 as part of the "Covid-19 emergency", also from the point of view of the repercussions in the anti-money laundering area, an area that was the subject of a dedicated session, as well as to the new regulations issued in 2021 and 2022 concerning, in particular, the introduction into the 231 catalogue of offences against cultural heritage; of offences relating to non-cash means of payment and the changes to the offences of receiving stolen goods, money laundering and self-money laundering laid down in the Criminal Code; a dedicated session was also held on these latter regulatory changes in 2022 for the Board of Statutory Auditors of Banco Desio;
- on the structure and functioning of the banks' corporate governance system, also with reference to the CG Code, with a focus in 2022 on the EBA's internal governance guidelines as well as on topical corporate issues and the renewal of corporate bodies (with a particular emphasis on preparatory activities and the Fit&Proper assessment);
- on related parties and connected persons, market abuse and antitrust regulations;
- on profiles related to the process of enacting EU legislation of major interest to the banking sector;
- on the salient aspects of the internal capital adequacy assessment process ("ICAAP") and the internal liquidity adequacy assessment process ("ILAAP"), the Supervisory Review and Evaluation Process ("SREP") and the internal model for the "rating based" credit risk assessment ("AIRB"); in 2019 and 2020, the latter matter was the subject of more specific in-depth studies in relation, in particular, to Banco Desio's use of the new AIRB risk parameters in the processes of credit granting, renewal, monitoring and management reporting applied to corporate customers, as well as to the development of the project as a whole; to this end, in 2020, a session on ICAAP/ILAAP was also held for Banco Desio's Board of Statutory Auditors;
- on the analysis of IT and cyber risk and the measurement of reputational risk; in 2019, these analyses were enriched with a focus on the role, in particular, of the Board of Directors and on Banco Desio's use of a new IT risk assessment methodology; in 2020, an in-depth meeting was also held on remote access to information systems; the training session held in November 2021 also covered business continuity and disaster recovery, while the one held in November 2022 also illustrated Banco Desio's upcoming initiatives on the subject with respect to resources and customers; in July 2022, a session was also held on the subject of personal data protection in the age of digitalisation;
- on anti-money laundering regulatory changes with regard to supervisory and criminal aspects, as well as on GDPR;
- on various macroeconomic and regulatory issues, including international ones, impacting the banking system and financial markets (e.g. "Basel 3"); in 2019, the matter was the subject of a cross-sectional update on the main dossiers open at the European Institutions and on the activities carried out there by the Italian Banking Association, as well as on

the potential strategic, managerial and operational impacts for Banco Desio; in 2021 and 2022, an update meeting was held, again on European dossiers;

- on IFRS 9 and its impact in particular on internal credit management models; to this end, a session dedicated to Banco Desio's Board of Statutory Auditors was also held in 2020;
- on the Recovery Plan and the Resolution Plan, including the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL"), introduced by prudential supervisory regulations, as well as their application to Banco Desio;
- on sustainability issues also in relation to non-financial disclosure regulations, last addressed in the July 2022 training session also in connection with Wealth Management issues with a focus in particular on ESG adjustments in investment services;
- on Product Governance in investment services; in 2019, the subject expanded with a focus on banking services following the entry into force of Product Oversight Governance ('POG');
- on Non-Performing Loans ('NPE');
- on Agricultural Credit;
- on the General Data Protection Regulation ('GDPR').
- on the implications of digital innovation on the banking system with particular reference to corporate credit;
- on the development of financial innovation ("fintech", "blockchain", etc.) and innovation governance with a particular focus on risks and controls; to this end, a session dedicated to the Banco Desio Group's Boards of Statutory Auditors was also held in 2019;
- on the disintermediation of payment services through digital payments (e.g. mobile payment services, P2P payments, etc.);
- on the "data transformation" in the financial sector;
- on the evolution of banking communication (styles, channels, etc.);
- on Outsourcing and Third Parties Governance in relation to the application of the new EBA Guidelines on the subject;
- on the new Crisis and Insolvency Code with an overview and focus on bank credit protection (a total of two meetings, the last of which was held in January 2023 to complete the 2022 programme);
- on the use of "data analytics" in the bank to better manage customers and the bank's information assets to support the business model (meeting held in June 2021);
- on evolutionary HR management topics (motivation, training, attraction, retention, etc. - meeting held in July 2021), as well as on topics related to "empathetic" relations in the corporate world (meeting held in January 2023 to complete the 2022 programme);
- on cryptocurrencies and the digital euro (meeting held in June 2022).

In 2022, as well as in 2021, a total of 7 training sessions were held for all Group Representatives, in addition to 2 sessions held in January 2023 to complete the 2022 programme. In detail, these sessions, which lasted a total of about 18 hours and 30 minutes, were widely attended by all the Representatives, as well as the "corporate top managers" to whom it was deemed useful to extend them, concluded with lively debate and were supported by a wealth of material that remains available to participants in a special digital library.

In this context, specific sessions have also been attended, starting in 2014, at ABI and SDA Bocconi, aimed at newly appointed officers and pertaining to both governance and business issues. The Directors and Statutory Auditors appointed in 2020 were given a number of dedicated sessions, of an introductory nature, by company departments (in particular, Administration and General Affairs Department and Risk Management Department).

In 2022, with the participation of the members of the Bodies of the various Group companies and some corporate functions, an in-depth meeting and discussion entitled "Banco Desio Towards Tomorrow - Strategic Planning Meeting" was held in Naples in the form of a convention. This initiative, which followed on from those held over the past six years and in which authoritative external speakers representing different entities from the credit and finance sector also took part, is incorporated in the "good practice" for the members of the Bodies to meet once or twice a year, outside Board meetings, to discuss and debate issues of a strategic nature, as envisaged by the aforementioned Circular No. 285.

c) Information on the diversity policy with regard to board members

Banco Desio is governed by the "list voting" rules for the election of the members of the Board of Directors and the Board of Statutory Auditors, which were introduced into the Articles of Association by virtue of Article 147-*ter* and Article 148 of the Consolidated Law on Finance (which, as known, provide for the appointment of a Director and the Chairperson of the Board of Statutory Auditors from a minority list).

In addition, the Articles of Association include the "gender quota" regulation introduced by Law No. 120/2011[11] for companies listed on regulated markets. These rules stipulated that "gender quotas" should be at least 1/5 for the first term of application (2014-2016) and at least 1/3 for the following two terms. The Extraordinary Shareholders' Meeting of 23 April 2020 approved the amendment to the Articles of Association following the entry into force (1 January 2020) of Law No. 160 of 27 December 2019 (Budget Law 2020), which extended the period of application by six terms and raised the gender quotas for the Board of Directors and the Board of Statutory Auditors to at least 2/5 (a quota, however, maintained at at least 1/3 in the case of bodies composed of three members, as in the case of the Board of Statutory Auditors) as of the renewal of offices that took place with the aforementioned Shareholders' Meeting.[12]

The Shareholders' Meeting of 14 April 2022 resolved to reduce the number of Directors from 12 to 11.

The practices adopted by the Banco Desio Group are consistent not only with the aforementioned legal provisions on gender quotas, but also with the Supervisory Provisions on the composition of Corporate Bodies, which provide for "an adequate degree of diversification in terms of, *inter alia*, skills, experience, age, gender and international projection". This aspect, pertaining specifically to the Appointments Committee's areas of competence, is, among other things, the subject of analysis in the self-assessment process referred to in paragraph 3.6 above, taking into account the operational and dimensional complexity of the company. The aforementioned practices were formalised in a special policy that, also in line with the recommendations of the Italian Corporate Governance Committee, was adopted with a Board resolution of 28 February 2019, taking into account the aforementioned EBA/ESMA Guidelines in force since 30 June 2018, and updated during 2021[13]. The subject is dealt with in connection with the broader project activities initiated in the area of Corporate Social Responsibility ("CSR") in connection with the DNF mentioned above. In this context, a "People, Diversity and Inclusion" Policy was also adopted on 16 January 2020, which applies to all Banco Desio Group companies and is addressed to all their employees with the aim of:

[11] The so-called "Golfo-Mosca" Law

[12] It should be noted that the gender quota regime adopted by Banco Desio as a listed company absorbs that introduced for all banks by the aforementioned 35th update of Circular No. 285.

[13] The Policy, whose latest update was approved by the Board of Directors on 3 August 2021, defines the situation in which the characteristics of candidates for the Administrative Body and the Control Body, such as age, gender, geographical origin and educational and professional background, differ in such a way as to allow for a variety of views within the Board of Directors and the Board of Statutory Auditors.
The Policy applies to all corporate bodies of the Banco Desio Group (Board of Directors and Board of Statutory Auditors) in accordance with the principle of proportionality indicated by the relevant EBA Guidelines. The application to financial intermediaries belonging to the Group, registered in the register pursuant to Article 106 of the Consolidated Banking Act ("TUB"), takes place on a voluntary basis.
For the Group's unlisted companies (excluding "vehicle companies" and instrumental companies as defined by the Supervisory Provisions), i.e. currently for Fides, it is now stipulated that at least one of the members of the Board of Directors must belong to the least represented gender. Likewise, it is stipulated that at least one standing member of the Board of Statutory Auditors must belong to the less represented gender. In the event of the termination of the full member of that gender and in the absence of an alternate member of the same gender who can take over, the presence of the less represented gender shall be restored at the next Shareholders' Meeting in accordance with the law.

- creating a working environment free from any form of discrimination, whether direct or indirect, associative or individual, as well as any form of violence or harassment;
- ensuring and promoting an inclusive culture based on mutual respect that allows the opportunity to develop the talents of each individual, enabling everyone to express their potential, free of stereotypes and prejudices, to fully appreciate the diversity and uniqueness of each person;
- pursuing a personnel selection policy aimed at recognising merit, while respecting equal opportunities;
- ensuring access to a professional and career development path based on respect for equal opportunities and non-discrimination;
- ensuring that all employees engage in conduct that reflects inclusion and upholds the Group's values.

During 2019, Banco Desio adhered to the ABI Charter on equal opportunities called "Women in the Bank".

d) Indicate whether or not the institution has established a separate risk committee and the frequency of its meetings

The B.o.D. established a Control, Risk and Sustainability Committee, due to expire at the Shareholders' Meeting of 27 April 2023, which is currently composed of three non-executive Directors, two of whom are independent, including the Committee Chairperson. Committee meetings are attended by the Chairperson of the Board of Statutory Auditors or by a Standing Auditor designated by the same, and the other Standing Auditors may also attend (as is usually the case); the Chief Executive Officer[14] and General Manager, the Deputy General Manager (if any), the heads of the Internal Audit, Risk Management, Compliance and Anti-Money Laundering functions, as well as other employees/associates/consultants according to the specific matters to be discussed, may also be invited to attend. The Risk and Sustainability Control Committee, in its capacity as an "Board" body, performs advisory/proposal-making functions and specifically assists the B.o.D. in supervising the regular operation of the internal control and risk management system, as well as assessing the correct use of accounting standards. The Committee reports to the B.o.D. on its activities and on the adequacy of the internal control and risk management system in a special report drawn up every six months.

The Committee is also entrusted, at Group level, with the supervision of sustainability issues as part of its advisory/proposal-making role for the approval by the Board of Directors of strategies and policies on the subject.

In assisting the Board of Directors, the Committee also supports the Board's evaluations and decisions relating to the management of risks arising from prejudicial facts of which the Board of Directors has become aware.[15]

Determinations made on issues within the competence of the B.o.D. are communicated, also verbally, at the first useful meeting, by the Chairperson of the Committee, who normally provides a summary of the Committee's assessments on the basis of what has been illustrated by the persons in charge of the aforesaid functions (who are in any case invited to attend the discussion of the respective topics at the meetings of the B.o.D. to illustrate their reports and provide any details requested by the Directors).

Also in connection with the introduction of the Non-Financial Statement, the Control, Risk and Sustainability Committee was assigned a supervisory role for issues falling within the framework of the "Sustainability Report", as part of its advisory/proposal-making role for the Board of Directors' approval of the strategies and policies in question, as well as the examination of the related reporting.

During the year 2022, the Committee, in its capacity as an advisory/proposal-making body for issues relating to the internal control and risk management system, as well as a body with supervisory duties on sustainability issues, met on 17 occasions, which were usually attended not only by its members, but by the Chairperson of the Board of Statutory Auditors and the Head

14 It is recalled that the role of the AISCI was absorbed by that of the CEO as of 23 April 2020 in accordance with the CG Code.
15 According to a principle still considered valid, the Self-Regulatory Code also specified that "a particularly important role within the internal control and risk management system is normally played by the legal and compliance functions, with particular reference to the control of legal and non-compliance risk, also including the risk of the commission of criminal offences to the detriment or in the interest of the company". As far as legal risk is concerned, this role is performed by the Legal Affairs Area.

of the Internal Audit Department, as well as the heads of the Risk Management, Compliance and Anti-Money Laundering Functions; depending on the topics dealt with, the other Statutory Auditors, the Chief Executive Officer and General Manager, the Financial Reporting Manager, as well as other Managers and/or employees and external consultants also attended individual meetings.

In addition to the usual topics, such as the evaluation of the periodic reports produced by the control functions, the examination of the draft financial statements and interim financial reports/information, the examination of the reports on complaints and appeals to the Financial Arbitrator and on proceedings in which the company is the defendant, as well as the adjustments made to the Process Policies/Regulations relevant to the internal control and risk management system - the main topics addressed by the Committee included, *inter alia*, the following:

- Periodic update on the Bank of Italy's post-inspection initiatives regarding AML matters;
- Verification of tax credits purchased on the secondary market with particular reference to the credit subject to criminal seizure;
- Resignation of the Head of the Compliance Office and finalisation of the appointment process for the new Head;
- Corporate governance issues outlined in the letter of the Italian Corporate Governance Committee;
- Draft financial statements as at 31 December 2021;
- Sustainability Themes and ESG Strategic Guidelines (Master Plan and Non-Financial Statement) (see also Part Two of this Section 7);
- Assessment of the Internal Control System (carried out with the support of the consulting firm Ernst&Young) and related follow-up;
- Periodic reporting by the Financial Reporting Manager and/or the Budget and Sustainability Area on financial and non-financial matters;
- RAF and Sustainability RAF by the risk management function;
- Integrated *tableau de bord* (dashboard) of corporate control functions;
- Credit Disclosure;
- AIRB project updates;
- Budget and Funding Plan for 2023.

As part of its advisory/proposal-making role on sustainability issues, the Committee, among other things, critically analysed the "materiality" updates for the Non-Financial Statement (NFS) 2022, with their impact on corporate strategies in various areas, as well as on corporate policies and regulations.

The Committee discussed the periodic SAL (progress report) on "Corporate Social Responsibility" on a quarterly basis.

The Committee, like the Board of Statutory Auditors, received, among other things, the flow of minutes of the Risk Management Committee, as well as the minutes of the newly established Control Function Coordination Committee.

The Committee's considerations, evaluations and opinions on the issues dealt with (which gave a generally positive opinion on the internal control and risk management system, although obviously subject to improvement) have been brought to the attention of the Board of Directors from time to time, also with the support of a specific summary prepared by the Committee Chairperson, when examining the information and/or passing resolutions on each of the above issues.

The Committee also coordinated its activities with those of the Board of Statutory Auditors - in accordance with the Group's Regulation for the Coordination of Controls and Information Flows - also by virtue of its constant and active participation in the aforementioned meetings of the Board of Statutory Auditors, as well as with the Independent Auditing Company due to the Committee's participation in joint meetings between the Board of Statutory Auditors and the Independent Auditing

Company at Group level, also for the purposes of assessing the correct use of accounting standards, as well as the criteria applicable to the Sustainability Report.

e) Description of the risk information flow to the board of directors

Please refer to the contents of Table EU OVA: Institution risk management approach.

4. Scope Disclosure[16]

The contents of this Public Disclosure document refer to the Banco Desio Banking Group. The Parent Company Banco di Desio e della Brianza S.p.A. is the entity to which the obligations relating to this disclosure apply.

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

Template EU LI3: Outline of the differences in the scopes of consolidation (entity by entity)

Name	Head Office	Type of relationship	% held at 31.12.2022	Treatment for accounting purposes	Treatment for regulatory purposes	Description of the entity
Companies fully consolidated						
Banco di Desio e della Brianza S.p.A.	Desio	1	50.412	Fully consolidation	Fully consolidation	Bank
Fides S.p.A.	Roma	1	100.000	Fully consolidation	Fully consolidation	Financial
Desio OBG S.r.l. (*)	Conegliano	1	60.000	Fully consolidation	Fully consolidation	SPV
Coppedè SPV S.r.l. (*)	Conegliano	4	0.000	Fully consolidation	Fully consolidation	SPV

Key
Type of relationship:
1 = majority of votes at the ordinary shareholders' meeting
4 = other forms of control
(*) SPV for securitization transactions originated by the Group

For the purpose of defining the scope of consolidation, account was taken of the requirements of effective control set forth in IFRS 10.

For the calculation of the consolidated own funds, reference is made to the figures for the banking and financial companies belonging to the banking group. These data also include asset and liability transactions (on and off-balance sheet), balance sheet and profit and loss account, with other companies included in the consolidation of the financial statements that have been eliminated. There are neither substantial nor legal impediments to the rapid transfer of assets or funds within the group.

Depending on what is represented in *Table EU LI3 Outline of the differences in the scopes of consolidation (entity by entity)* the disclosures required by Regulation (EU) 2021/637 with *Table EU LIA: Explanations of differences between accounting and regulatory exposure amounts* and *Table EU LIB: Other qualitative information on the scope* is not considered applicable.

Pursuant to the prudential supervision provisions of Articles 11(2) and (3) and 13(2) of the CRR Regulation, banks controlled by a "parent financial holding company" are required to comply with the requirements of the CRR on the basis of the consolidated situation of that financial holding company. These provisions lead to the calculation of capital ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., the parent company of 50.41% of Banco di Desio e della Brianza S.p.A.

[16] See Art. 3 of Implementing Regulation (EU) 2021/637

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Template EU LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

		a	b	c	d	e	f	g
				Carrying values of items				
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to the credit risk framework	subject to the CCR framework	subject to the securitisation framework	subject to the market risk framework	not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset classes based on the balance sheet in the published financial statements							
01	10. Cash and cash equivalents	879,593	879,593	879,593	-	-	-	-
02	20. Financial assets measured at fair value through profit or loss	139,820	139,820	113,408	2,640	648	23,124	-
03	A) Financial assets held for trading	25,764	25,764	-	2,640	-	23,124	-
04	B) Financial assets designated at fair value	-	-	-	-	-	-	-
05	C) Other financial assets mandatorily measured at fair value	114,056	114,056	113,408	-	648	-	-
06	30. Financial assets measured at fair value through other comprehensive income	842,346	842,346	842,346	-	-	-	-
07	40. Financial assets measured at amortised cost	14,653,904	14,653,904	14,458,901	-	195,003	-	-
08	A) Loans and advances to banks	201,157	201,157	201,157	-	-	-	-
09	B) Loans and advances to customers	11,475,601	11,475,601	11,475,601	-	-	-	-
10	C) Debt securities	2,977,146	2,977,146	2,782,143	-	195,003	-	-
11	- Banks	430,931	430,931	430,931	-	-	-	-
12	- Customers	2,546,215	2,546,215	2,351,212	-	195,003	-	-
13	50. Hedging derivatives	59,099	59,099	-	59,099	-	-	-
14	60. Value adjustment of macro-hedged financial assets (+/-)	(19,593)	(19,593)	-	-	-	-	(19,593)
15	70. Equity investments	4,866	4,866	1,488	-	-	-	3,378
16	80. Technical provisions by reinsurers	-	-	-	-	-	-	-
17	90. Property, plant and equipment	220,934	220,934	220,934	-	-	-	-
18	100. Intangible Assets	19,963	19,963	3,464	-	-	-	16,499
19	- Goodwill	15,322	15,322	-	-	-	-	15,322
20	- Other intangible assets	4,641	4,641	3,464	-	-	-	1,177
21	110. Tax assets	157,788	157,788	157,788	-	-	-	-
22	A) Current	3,896	3,896	3,896	-	-	-	-
23	B) Deferred	153,892	153,892	153,892	-	-	-	-
24	120. Non-current assets and disposal groups	1	1	1	-	-	-	-
25	130. Other assets	577,846	577,846	577,846	-	-	-	-
26	**Total assets**	**17,536,567**	**17,536,567**	**17,255,769**	**61,739**	**195,651**	**23,124**	**284**

		a	b	c	d	e	f	g
				Carrying values of items				
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to the credit risk framework	subject to the CCR framework	subject to the securitisation framework	subject to the market risk framework	not subject to own funds requirements or subject to deduction from own funds
	Breakdown by liability classes based on the balance sheet in the published financial statements							
01	10. Financial liabilities measured at amortised cost	16,081,444	16,081,444	-	791,331	-	-	-
02	A) Due to banks	3,381,350	3,381,350	-	288,219	-	-	-
03	B) Due to customers	11,163,943	11,163,943	-	503,112	-	-	-
04	C) Outstanding Securities	1,536,151	1,536,151	-	-	-	-	-
05	20. Financial liabilities held for trading	4,130	4,130	-	4,130	-	-	-
06	30. Financial liabilities designated at fair value	-	-	-	-	-	-	-
07	40. Hedging derivatives	-	-	-	-	-	-	-
08	50. Value adjustment of macro-hedged financial liabilities (+/-)	-	-	-	-	-	-	-
09	60. Tax liabilities	1,619	1,619	-	-	-	-	-
10	A) current	582	582	-	-	-	-	-
11	B) deferred	1,037	1,037	-	-	-	-	-
12	70. Liabilities associated with asset disposal groups	11	11	-	-	-	-	-
13	80. Other liabilities	255,605	255,605	-	-	-	-	-
14	90. Staff severance pay	17,790	17,790	-	-	-	-	-
15	100. Provisions for risks and charges	55,263	55,263	-	-	-	-	-
16	A) Commitments and guarantees given	3,534	3,534	-	-	-	-	-
17	B) Pension and similar obligations	-	-	-	-	-	-	-
18	C) Other provisions for risks and charges	51,729	51,729	-	-	-	-	-
19	110. Technical provisions	-	-	-	-	-	-	-
20	120. Valuation Reserves	(6,650)	(6,650)	-	-	-	-	-
21	120. VALUATION RESERVES - of which discontinued operations	-	-	-	-	-	-	-
22	130. Reimbursable shares	-	-	-	-	-	-	-
23	140. Equity instruments	-	-	-	-	-	-	-
24	145. Interim dividends	-	-	-	-	-	-	-
25	150. Reserves	465,267	465,267	-	-	-	-	-
26	150. A) profit reserves	465,267	465,267	-	-	-	-	-
27	150. B) other reserves	-	-	-	-	-	-	-
28	160. Share premium	10,809	10,809	-	-	-	-	-
29	170. Share capital	54,026	54,026	-	-	-	-	-
30	180. Treasury shares (-)	-	-	-	-	-	-	-
31	190. Equity attributable to non-controlling interests (+/-)	556,619	556,619	-	-	-	-	-
32	190. Equity attributable to non-controlling interests (+/-) - of which discontinued operations	-	-	-	-	-	-	-
33	200. Profit (loss) for the year	40,634	40,634	-	-	-	-	-
34	**Total liabilities**	**17,536,567**	**17,536,567**	**-**	**795,461**	**-**	**-**	**-**

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Template EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Exposures subject to the			
			credit risk framework	securitisation framework	CCR framework	market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	17,536,567	17,256,053	195,651	61,739	23,124
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	795,461	-	-	795,461	-
3	Total net amount under the regulatory scope of consolidation	18,332,028	17,256,053	195,651	857,200	23,124
4	Off-balance-sheet amounts	3,360,544	3,360,544	-	-	
5	*Valuation differences*	65,375	65,375	-	-	
6	*Differences due to offsetting rules other than those already included in line 2*	-	-	-	-	
7	*Differences due to the treatment of value adjustments*	-	-	-	-	
8	*Differences due to the use of credit risk mitigation (CRM) techniques*	-	157,696	(157,696)	-	
9	*Differences due to credit conversion factors*	(3,102,904)	(3,102,904)	-	-	
10	*Differences due to securitisation with risk transfer*	-	-	-	-	
11	*Other differences*	(29,870)	(29,870)	-	-	
12	Exposure amounts considered for regulatory purposes	18,625,173	17,706,894	37,955	857,200	23,124

5. Own Funds Disclosure[17]

In accordance with current regulations, the elements that make up Own Funds are described below:

1. Common Equity Tier 1 - CET1

The elements of institutions' common equity tier 1 capital are the following: a) capital instruments, provided that the conditions set out in Article 28 or, where applicable, Article 29 of EU Regulation No. 575/2013 are met (see paragraph "Introduction"); b) additional paid-in capital reserves related to the instruments referred to in the previous point; c) retained earnings; d) other accumulated comprehensive income; e) other reserves; f) provisions for general banking risks. Items (c) to (f) are recognised as common equity tier 1 capital only if they can be used without restriction and without delay by the institution to cover risks or losses at the time such risks or losses occur.

2. Additional Tier 1 (AT1) capital

The elements of Additional Tier 1 capital consist of: a) capital instruments, when the conditions of Article 52(1) of EU Regulation No. 575/2013 are met; b) additional paid-in capital reserves relating to the instruments referred to in the previous point. Instruments referred to in (a) above do not qualify as common equity tier 1 or tier 2 capital items.

3. Tier 2 (T2) capital

Tier 2 capital items consist of: a) capital instruments and subordinated loans, when the conditions set out in Article 63 of EU Regulation No. 575/2013 are met; b) share premium reserves relating to the instruments referred to in the previous point; c) for institutions calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2 of EU Regulation No. 575/2013, the value adjustments on general loans, gross of tax effects, up to 1.25% of the risk-weighted exposure amounts calculated in accordance with Part Three, Title II, Chapter 2 of that Regulation; d) for institutions calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 3 of EU Regulation No. 575/2013, the positive amounts, gross of tax effects, resulting from the calculation referred to in Articles 158 and 159 up to 0.6 % of the risk-weighted exposure amounts calculated in accordance with Part Three, Title II, Chapter 3 of that Regulation.

On 23 and 25 January 2018, the respective Boards of Directors of the merged Banca Popolare di Spoleto and of Banco Desio, taking into account the best available estimate of the higher adjustments for expected losses on performing and impaired loans under the first application of IFRS9, have resolved to adhere to the transitional provisions introduced by Regulation (EU) 2017/2395 of 12 December 2017 aimed at mitigating the impact of the introduction of the standard on equity and capital ratios, with reference both to the component of increase in adjustments for expected losses on performing and impaired loans upon first application of the standard and with reference to the increase in expected losses on performing loans with respect to the date of first application of the standard.

The calculation of capital ratios at the reporting date also benefited from the capital requirement relaxation measures introduced by EU Regulation 873/2020 and in particular:

- the amendment to the transitional provisions of IFRS 9 that allows banks to sterilise the capital impacts associated with the increase in loan impairments recognised in the period 2020 - 2024 in a decreasing manner compared to 1 January 2020 for stage 1 and stage 2 portfolios,
- bringing forward the date of application of a) SMEs Supporting Factor, b) more accurate calibration of salary/pension-backed loans, with weighting at 35%,
- the replacement of the previous prudential regime of advance full deduction with respect to software investments, in favour of a simple approach based on a prudential depreciation of software resources over a maximum period of three years.

[17] See Art. 4 of Implementing Regulation (EU) 2021/637

At its meeting on 30 July 2020, the Parent Company's Board of Directors also resolved to avail itself of the option provided for in Regulation 2020/873 and thus of the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income for government debt securities over the 2020-2022 period (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022).

The breakdown of the Group's Own Funds, determined in accordance with the regulatory provisions described above, shows that Common Equity Tier 1 Capital accounts for 85.40% of the Group's Own Funds, while Additional Tier 1 Capital and Tier 2 Capital account for approximately 6.33% and 8.27% of the Group's Own Funds, respectively.

The Parent Company's Board of Directors periodically examine and approves the aggregates that make up Own Funds in order to verify both their congruence with the risk profile assumed and their adequacy to the bank's development plans.

Template EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

There are no instruments identified by the template because the bonds issued matured during 2022.

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Template EU CC1: Composition of regulatory own funds

		a) Amounts 31/12/2022	a) Amounts 31/12/2021	b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and related share premium reserves	64,835	64,835	160 Liabilities and 170 Liabilities
	Of which instrument type Ordinary Shares	*54,026*	*54,026*	*170 Liabilities*
	Of which instrument type 2	-	-	-
	Of which instrument type 3	-	-	-
2	Undistributed profits	25,316	24,674	150 Liabilities
3	Accumulated other comprehensive income (and other reserves)	439,917	430,641	150 Liabilities
EU-3a	Provisions for general banking risks	-	-	-
4	Amount of eligible items referred to in Article 484(3) CRR and related share premium reserves subject to phase-out from CET1	-	-	-
5	Minority interests (amount allowed in consolidated CET1)	277,076	278,750	190 Liabilities
EU-5a	Profit for the period audited by independent persons net of all foreseeable charges or dividends	32,322	16,740	200 Liabilities
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**839,466**	**815,640**	-
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets (net of related tax liabilities) (negative amount)	(19,854)	(16,601)	100 Assets
27a	Other regulatory adjustments	25,574	41,423	
28	**Total regulatory adjustments to common equity tier 1 capital (CET1)**	**5,720**	**24,822**	-
29	**Common Equity Tier 1 (CET1) capital**	**845,186**	**840,462**	-

		a)	a)	b)
		Amounts	Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		31/12/2022	31/12/2021	
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and related share premium reserves	-	-	-
31	*Of which classified as equity in accordance with applicable accounting standards*	-	-	-
32	*Of which classified as liabilities under the applicable accounting standards*	-	-	-
33	Amount of eligible items referred to in Article 484(4) CRR and related share premium reserves subject to phase-out from AT1	-	-	-
EU-33a	Amount of eligible items referred to in Article 494a(1) CRR subject to phase-out from AT1	-	-	-
EU-33b	Amount of eligible items referred to in Article 494b(1) CRR subject to phase-out from AT1	-	-	-
34	Eligible Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	62,201	56,815	190 Liabilities
36	Additional Tier 1 capital (AT1) before regulatory adjustments	62,201	56,815	-
	Additional Tier 1 (AT1) capital: regulatory adjustments			
42a	Other regulatory adjustments to AT1	535	820	-
43	Total regulatory adjustments to Additional Tier 1 capital (AT1)	535	820	-
44	Additional Tier 1 capital (AT1)	62,736	57,635	-
45	Tier 1 capital (T1 = CET1 + AT1)	907,922	898,097	-
	Tier 2 (T2) capital instruments			
46	Capital instruments and related share premium reserves	-	-	-
48	Eligible own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in row 5 or row 34) issued by subsidiaries and held by third parties	81,050	73,868	190 Liabilities
51	Tier 2 capital (T2) before regulatory adjustments	81,050	73,868	-
	Tier 2 (T2) capital: regulatory adjustments			
EU-56b	Other regulatory adjustments to T2 capital	697	1,017	-
57	Total regulatory adjustments to Tier 2 capital (T2)	697	1,017	-
58	Tier 2 (T2) capital	81,747	74,885	-
59	Total capital (TC = T1 + T2)	989,669	972,982	-
60	Total risk exposure amount	7,665,612	7,215,518	-

		a)	a)	b)
		Amounts	Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		31/12/2022	31/12/2021	
	Capital ratios and buffers			
61	Common Equity Tier 1 capital	11.0257%	11.6480%	-
62	Tier 1 capital	11.8441%	12.4467%	-
63	Total capital	12.9105%	13.4846%	-
64	Overall CET1 capital requirements of the institution	7.3500%	7.3500%	-
65	*Of which: capital conservation buffer requirement*	*2.5000%*	*2.5000%*	-
66	*Of which: countercyclical buffer requirement*	-		-
67	*Of which: systemic risk buffer requirement*	-	-	-
	Of which capital buffer requirement of global systemically important institutions (G-SII) or other systemically important institutions (O-SII) - Max Numerator per line 67-A	-	-	
EU-67a	*Of which capital buffer requirement of global systemically important institutions (G-SII) or other systemically important institutions (O-SII)*	-	-	-
EU-67b	*Of which additional capital requirements to address risks other than excessive leverage risk*	*0.3500%*	*0.3500%*	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.1757%	6.7980%	-
	National minima (if different from Basel III)			
69	Not applicable	-	-	-
70	Not applicable	-	-	-
71	Not applicable	-	-	-
	Amounts below the deduction thresholds (before risk-weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	81,058	30,331	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	3,080	798	-
74	Not applicable	-	-	-
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	48,596	29,828	-

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Template EU CC2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	a	b				c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Relevant amounts for own funds purposes			Reference
			Common Equity Tier 1 (CET1) capital	Additional Tier 1 (AT1) capital	Tier 2 (T2) capital	
	As at period end	As at period end				
Assets						
10. Cash and cash equivalents	879,593	879,593	-	-	-	-
20. Financial assets measured at fair value through profit or loss	139,820	139,820	-	-	-	-
30. Financial assets measured at fair value through other comprehensive income	842,346	842,346	-	-	-	-
40. Financial assets measured at amortised cost	14,653,904	14,653,904	-	-	-	-
50. Hedging derivatives	59,099	59,099	-	-	-	-
60. Value adjustment of macro-hedged financial assets (+/-)	(19,593)	(19,593)	-	-	-	-
70. Equity investments	4,866	4,866	(3,378)	-	-	-
80. Technical provisions by reinsurers	-	-	-	-	-	-
90. Property, plant and equipment	220,934	220,934	-	-	-	-
100. Intangible Assets	19,963	19,963	-	-	-	-
- Goodwill	15,322	15,322	(15,322)	-	-	-
- Other intangible assets	4,641	4,641	(1,177)	-	-	-
110. Tax assets	157,788	157,788	-	-	-	-
120. Non-current assets and disposal groups	1	1	-	-	-	-
130. Other assets	577,846	577,846	-	-	-	-
Total Assets	**17,536,567**	**17,536,567**	**19,877**			

	a	b	Relevant amounts for own funds purposes			c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Common Equity Tier 1 (CET1) capital	Additional Tier 1 (AT1) capital	Tier 2 (T2) capital	Reference
	As at period end	As at period end				
Liabilities and Equity						
10. Financial liabilities measured at amortised cost	16,081,444	16,081,444	-	-	-	-
20. Financial liabilities held for trading	4,130	4,130	-	-	-	-
60. Tax liabilities	1,619	1,619	-	-	-	-
70. Liabilities associated with asset disposal groups	11	11	-	-	-	-
80. Other liabilities	255,605	255,605	-	-	-	-
90. Staff severance pay	17,790	17,790	-	-	-	-
100. Provisions for risks and charges	55,263	55,263	-	-	-	-
120. Valuation Reserves	(6,650)	(6,650)	6,650	-	-	-
150. Reserves	465,267	465,267	453,605	-	-	-
160. Share premium	10,809	10,809	10,809	-	-	-
170. Share capital	54,026	54,026	54,026	-	-	-
190. Equity attributable to non-controlling interests (+/-)	556,619	556,619	279,459	62,736	81,747	-
200. Profit (loss) for the year	40,634	40,634	32,322	-	-	-
Total Liabilities and Shareholders' Equity	**17,536,567**	**17,536,567**	**836,871**	**62,736**	**81,747**	

6. Leverage ratio disclosure[18]

Qualitative disclosure

Excessive leverage risk refers to the risk that a particularly high level of debt relative to the bank's capital base makes the bank vulnerable, necessitating corrective measures to its business plan, including the sale of assets with the recognition of losses that could lead to impairments on the remaining assets. The Financial Leverage Ratio measures the degree to which the Group's Tier 1 Capital is covered by the Group's total exposure, calculated considering assets and off-balance sheet exposures. The objective of the indicator is to contain the degree of indebtedness by including a minimum level of coverage of risk assets by equity capital. As of June 2021, the ratio is subject to a 3% floor and has become a Pillar 1 requirement under the provisions of Article 92(1)(d) of Regulation (EU) 2019/876 (CRR II).

Table EU LRA: Disclosure of LR qualitative information

For the purposes of supervisory regulations, the Group uses the calculation methodology and frequency in accordance with the rules set out in the current regulations (Regulation 575/2013) within the scope of prudential supervisory reporting activities. The leverage indicator is selected as a monitoring metric within the Risk Appetite Framework for monitoring the Group's capital adequacy. In addition to the regulatory minimum limit (3%), further thresholds are established in terms of early warning and tolerance in line with the risk and capitalisation levels implicit in the figures also expressed in the Business Plan.

The leverage ratio without the application of the IFRS9 transitional regime "Financial Instruments" at the reporting date was 4.98%, as better detailed by the quantitative information in the tables below, well above the regulatory minimum and in line with previous records.

Quantitative disclosure

Template EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		a	b
		Applicable amount	Applicable amount
		31/12/2022	30/06/2022
1	Total assets as per published balance sheet	17,536,567	18,332,670
8	Adjustment for derivative financial instruments	25,901	46,245
9	Adjustment for securities financing transactions (SFTs)	168,014	70,269
10	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	540,408	517,723
12	Other adjustments	(24,603)	(33,208)
13	Leverage ratio total exposure measure	18,246,287	18,933,699

[18] See Art. 6 of Implementing Regulation (EU) 2021/637

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Template EU LR2 - LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures	
	On-balance sheet exposures (excluding derivatives and SFTs)	31.12.2022	30.06.2022
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	17,472,040	18,308,877
6	(Asset amounts deducted in determining Tier 1 capital)	(21,816)	(20,759)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	17,450,224	18,288,118
	Derivative exposures		
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	39,174	15,879
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	48,466	41,708
13	Total derivative exposures	87,640	57,587
	Securities financing transaction (SFT) exposures		
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	168,014	70,270
18	Total securities financing transaction exposures	168,014	70,270
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	3,364,053	3,265,997
20	(Adjustments for conversion to credit equivalent amounts)	(2,823,645)	(2,748,273)
22	Off-balance-sheet exposures	540,408	517,724
	Capital and total exposure measure		
23	Tier 1 capital	907,922	887,002
24	Leverage ratio total exposure measure	18,246,287	18,933,699
	Leverage ratio		
25	Leverage ratio (%)	4.98%	4.68%
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks - Public sector investments) (%)	4.98%	4.68%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	4.98%	4.68%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-27a	Overall leverage ratio requirements (%)	3.00%	3.00%
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	-	-
	Disclosure of mean values		
30	Overall exposure measure (including the impact of any applicable temporary exemption of central bank reserves) comprising mean values of row 28 of gross SFT assets (after adjustment for accounting operations)	18,246,287	18,933,699
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	18,246,287	18,933,699
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.98%	4.68%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.98%	4.83%

Template EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		a	a
		CRR leverage ratio exposures	CRR leverage ratio exposures
		31/12/2022	30/06/2022
EU - 1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which	17,472,040	18,308,877
EU - 2	Trading book exposures	29,996	33,425
EU - 3	Banking book exposures, of which	17,442,044	18,275,453
EU - 4	Covered bonds	-	-
EU - 5	Exposures treated as sovereigns	4,529,590	5,289,020
EU - 6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	4,310	3,369
EU - 7	Institutions	680,388	608,101
EU - 8	Secured by mortgages of immovable properties	3,682,143	3,717,728
EU - 9	Retail exposures	3,889,854	3,799,747
EU - 10	Corporate	3,514,991	3,640,974
EU - 11	Exposures in default	197,023	223,543
EU - 12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	943,747	992,970

7. Disclosure of liquidity requirements[19]

Qualitative disclosure

For the purposes of supervisory regulations, the Group uses the calculation methods and frequencies provided for by the regulations (Circular No. 285) to calculate short-term liquidity indicators (LCR - Liquidity Coverage Ratio), structural liquidity indicators (NSFR - Net Stable Funding Ratio) and Additional Liquidity Monitoring Metrics (ALMM).

Quantitative disclosure

The Group's liquidity position, supported by adequate high-quality liquid assets (HQLA) and the significant contribution of stable funding from customers, remained within the risk limits of the Risk Appetite Framework in the financial year 2021.

Both the LCR and NSFR regulatory indicators are well above the minimum regulatory requirements.

Over the past 12 months, the Group's Liquidity Coverage Ratio (LCR), measured according to Regulation 2021/637, averaged 213.27%.

The data below refer to the simple average of the last 12 monthly observations for each quarter, as per Regulation 2021/637.

Regulation (EU) 2019/876 introduced a minimum level (100%) of Net Stable Funding Ratio (NSFR) to ensure the institution's ability to have sufficient stable funding to meet its funding needs over a one-year time horizon, starting with the reporting of 30 June 2021. The policy applied by the Group is to promote greater recourse to stable funding in order to avoid medium- to long-term activity generating imbalances to be financed in the short term, by establishing an appropriate minimum amount of stable funding.

[19] See Art. 7 of Implementing Regulation (EU) 2021/637

Template EU LIQ1: Quantitative information of LCR

Scope of consolidation: (individual/consolidated)		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on	31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2022	30.09.2022	30.06.2022	31.03.2022
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total High-Quality Liquid Assets (HQLA)					2,722,198	2,910,518	3,134,409	3,314,030
CASH OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which	7,705,526	7,686,806	7,580,880	7,404,164	609,013	607,628	597,031	580,163
3	Stable deposits	4,213,844	4,182,227	4,096,709	3,982,149	210,692	209,111	204,835	199,107
4	Less stable deposits	3,335,376	3,334,891	3,286,714	3,196,439	398,320	398,517	392,196	381,056
5	Unsecured wholesale funding	2,727,340	2,722,343	2,791,858	2,894,673	1,380,486	1,360,326	1,382,639	1,422,391
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	15,588	13,763	12,317	12,388	3,897	3,441	3,079	3,097
7	Non-operational deposits (all counterparties)	2,705,841	2,702,173	2,768,578	2,873,277	1,370,678	1,350,477	1,368,596	1,410,286
8	Unsecured debt	5,911	6,408	10,964	9,008	5,911	6,408	10,964	9,008
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	100,503	95,929	97,603	98,603	8,190	7,334	7,379	7,583
11	Outflows related to derivative exposures and other collateral requirements	389	305	144	142	389	305	144	142
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	100,114	95,624	97,459	98,462	7,800	7,030	7,235	7,442
14	Other contractual funding obligations	87,014	68,847	65,266	56,695	87,014	68,847	65,266	56,695
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					2,084,702	2,044,135	2,052,316	2,066,832
CASH INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	341,026	322,862	315,719	308,509	265,839	250,699	246,287	244,009
19	Other cash inflows	1,254,217	1,237,523	1,200,460	1,184,216	264,111	264,916	256,033	259,194
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	1,595,243	1,560,385	1,516,179	1,492,725	529,950	515,616	502,320	503,203
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75 % cap	1,595,243	1,560,385	1,516,179	1,492,725	529,950	515,616	502,320	503,203
TOTAL CORRECTED VALUE									
EU-21	LIQUIDITY BUFFER					2,722,198	2,910,518	3,134,409	3,314,030
22	TOTAL NET CASH OUTFLOWS					1,554,752	1,528,520	1,549,996	1,563,629
23	LIQUIDITY COVERAGE RATIO					175.7581%	191.0776%	202.6887%	212.0332%

Template EU LIQB: Qualitative information on LCR, which complements template EU LIQ1

The Liquidity Coverage Ratio (LCR) is the indicator designed to promote short-term resilience of the bank's liquidity risk profile by ensuring that the bank has sufficient high-quality liquid reserves to cover cash outflows for a period of one month in the event of a severe stress scenario.

The indicator is monitored internally on a daily basis and is also reported to the Supervisory Authorities on a monthly basis through supervisory reporting.

The evidence shows that the average level of the liquidity coverage ratio remains permanently above the regulatory minimum requirement. The reported LCR performance increased throughout the observation period; the trend in the LCR indicator reflects the positive evolution of the Group's liquidity position, which incorporates the increase in commercial funding and the benefits of ECB funding through TLTRO operations. The LCR indicator has no currency mismatch as there are no relevant currencies other than the euro.

The average level over the past 12 months stands at 175.79% with available high quality assets (HQLA) averaging €2.772bn consisting entirely of the most liquid type (Level 1) of assets eligible for the numerator of the LCR. At the end of December 2022, the exact value of the HQLA liquidity buffer consisted of approximately 33% cash and the remainder was mainly made up of Italian level 1 government bonds. In addition to these available liquid assets (HQLA), the Group has additional marketable unencumbered assets to which specific haircuts are applied to account for liquidity. The main component of liquidity outflows relates to retail and wholesale deposits, while the component of inflows is concentrated on instalment-based, trade and non-maturity assets.

The concentration of funding and liquidity sources is managed and controlled, aimed at preventing possible weaknesses in the Group, mainly through the monitoring of both management and regulatory metrics, such as the concentration of funding by product and counterparties.

Template EU LIQ2: Net Stable Funding Ratio

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
	Available Stable Funding (ASF) items					
1	Capital items and instruments	907,922	-	-	81,747	989,669
2	Own funds	907,922	-	-	81,747	989,669
3	Other capital instruments		-	-	-	-
4	Retail deposits		7,571,275	54,199	332,565	7,408,162
5	Stable deposits		4,242,953	10,443	6,518	4,047,244
6	Less stable deposits		3,328,323	43,755	326,048	3,360,918
7	Wholesale funding:		3,850,284	1,197,593	3,156,018	4,863,713
8	Operational deposits		18,732	-	-	9,366
9	Other wholesale funding		3,831,552	1,197,593	3,156,018	4,854,347
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	83,728	4,746	164,068	166,365
12	NSFR derivatives liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		83,728	4,746	164,068	166,365
14	**Total available stable funding (ASF)**					**13,427,908**
	Required Stable Funding (RSF) items					
15	Total High-Quality Liquid Assets (HQLA)					146,664
EU-15a	Assets encumbered for more than 12m in cover pool		23,391	23,658	1,248,614	1,101,314
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		2,484,324	542,132	8,267,284	10,273,300
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		195,195	6,113	106,530	129,106
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which		1,651,812	435,781	5,497,396	6,941,171
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		233,922	205,514	2,796,533	3,672,761
22	Performing residential mortgages, of which		27,783	28,900	1,624,897	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		27,783	28,893	1,611,174	-
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		609,533	24,021	1,038,461	1,000,395
25	Interdependent assets		-	-	-	-
26	Other assets:	-	407,023	34,947	902,704	1,098,933
27	Physically traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		27,792	-	-	23,623
29	NSFR derivative assets		24			24
30	NSFR derivative liabilities before deduction of variation margin posted		60,600			3,030
31	All other assets not included in the above categories		318,607	34,947	902,704	1,072,256
32	Off-balance sheet items		258,020	18,786	147,205	40,099
33	**Total RSF**					**10,457,682**
34	**Net Stable Funding Ratio (%)**					**128.4023%**

8. Disclosure of credit risk and dilution risk exposures and credit quality[20]

Table EU CRA: General qualitative information about credit risk

For a more detailed analysis of the credit risk management strategies and processes, the structure and organisation of the risk management function and the relationships between the credit risk management, risk control, compliance control and internal audit functions, please refer to the description in Section 2. Disclosure of risk management objectives and policies (Art. 2 Implementing Regulation (EU) 2021/637) - Table EU OVA: Institution risk management approach.

Banco Desio's asset quality management focuses, both statically and dynamically, on the composition and quality of loans and the main implications in terms of both the income statement and capital adequacy.

Receivables are subject to constant monitoring that aims to identify the deterioration of creditworthiness on an ongoing basis, in order to highlight possible impairments. The methodology considers both the specific creditworthiness of the debtors and the presence of collateral and personal guarantees, as well as the local or national economic conditions relative to the counterparty's sector.

Table EU CRB: Additional disclosure related to the credit quality of assets

The accounting standard IFRS9 "Financial Instruments" provides for an impairment model that requires the estimation of credit losses based on an expected losses model using supportable information, available without unreasonable burden or effort, that includes historical, current and prospective data. The standard provides, in particular, for the classification of financial instruments into three classes with an increasing degree of risk(stages/buckets), each of which has its own way of defining and measuring value adjustments.

In particular, the standard provides for the distinction of performing financial assets into two different risk categories (stage 1 less risky and stage 2 more risky), depending on whether or not the exposures have undergone a significant increase in risk since initial recognition; financial instruments that show objective evidence of impairment must instead be classified in stage 3. Accordingly, the Group has defined the parameters for determining the significant increase in credit risk for the purpose of correctly allocating performing exposures to stage 1 or stage 2. On the other hand, with regard to "impaired" exposures, the alignment of the definitions of accounting and regulatory default made it possible to consider the existing approaches for classifying impaired exposures identical to the approaches for classifying exposures within stage 3.

Performing Exposures

The quality of the Performing Exposure portfolio is assessed through the calculation of the Expected Loss as part of the Impairment process, i.e., the evaluation of the loss that is statistically expected over a time horizon against a loan disbursed.

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

a) stage 1 for exposures with performance in line with expectations;

b) stage 2 for exposures that perform below expectations, i.e., that have experienced a significant increase in credit risk relative to when they originated (i.e., were purchased);

c) stage 3 for non-performing exposures (see next paragraph).

The calculation of the impairment is based on expected losses, determined on the basis of past events, current conditions and reasonable and "supportable" future forecasts; the horizon for calculating the expected loss is one year for stage 1 loans, or lifetime for stage 2 and 3 loans. The impairment calculation model includes forward-looking components, i.e. expected changes in the macroeconomic scenario. Stage 1 and Stage 2 overlap with the definition of performing loans, to which collective impairment is currently applied, based on the concept of incurred but unrecorded losses.

[20] See Art. 8 of Implementing Regulation (EU) 2021/637

The expected loss depends mainly on the following parameters:

- PD, *Probability of Default*, represents the probability of default of the counterparty over a one-year time horizon;
- LGD, *Loss Given Default*, is the percentage share of credit that is assumed to be lost, or not recovered, given the event of default;
- EAD, *Exposure at Default*, is the total credit exposure one will have at the time of default.

Performing Exposures include positions under control, i.e., those relationships for which a precautionary observation period is deemed appropriate, indicatively lasting from 6 to 12 months, during which the presence of anomalies attributable to internal and external risk indicators (risk triggers) is monitored. The classification proposal may also be formulated by the competent central and/or territorial functions by notifying the branch of the change in the customer's personal status.

Non-Performing Exposures

Non-Performing Exposures (stage 3) include cash assets (loans and debt securities) and off-balance sheet assets (guarantees issued, irrevocable and revocable commitments to disburse funds), other than financial instruments, allocated to the accounting portfolio "Financial assets held for trading and derivative contracts". For the purposes of classifying these exposures, the existence of any guarantees (collateral or personal) securing the assets is disregarded.

The classification defined by the Bank of Italy and applied by the Banco Desio Group identifies three classes of non-performing exposures according to the severity of the counterparty's state of insolvency:

1. Past due exposures: in accordance with the new definition of default applicable from 1 January 2021, this group includes all exposures to borrowers (other than those reported as non-performing or unlikely to pay) that, at the reporting date, have claims that are past due or in excess of 90 days, with an absolute materiality threshold of EUR 100 for retail exposures and EUR 500 for non-retail exposures and a relative materiality threshold of 1%. Individual exposures past due and/or in arrears must be at Group level.
2. Unlikely to pay: are those exposures for which it is judged unlikely that, without recourse to actions such as the enforcement of collateral, the borrower will meet its credit obligations in full. This assessment must be conducted independently of the presence of any overdue and unpaid amounts (or instalments). It is therefore not necessary to wait for the explicit symptom of an anomaly (the non-repayment) where there are elements that imply a situation of risk of default by the debtor.
3. Bad loans: this class includes all exposures to parties in a state of insolvency (even if not judicially ascertained) or in comparable situations. The transition to non-performing status occurs when the customer, in light of the objective elements in the NPL Area's possession, demonstrates that it is no longer able to meet its commitments.

Bad loans are loans for which there is objective evidence of impairment, measured by the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The valuation, determined in accordance with internal policy, is analytical and takes into account the presumed possibility of recovery, the expected timing of collection and outstanding guarantees. Receivables for default interest accrued on impaired assets are only recognised in the balance sheet when actually collected.

The analysis of the quality of impaired assets is reflected in the value of the book impairment that is set aside for the deterioration of the quality of the credit in question, defined as an Expected Credit Loss (ECL).

In accounting terms, the write-down results in an impairment of the receivable that increases the allowance for loan losses with a consequent cost in the income statement. The allowance share associated with the individual balance sheet asset in relation to the face value of the loan is called the coverage ratio.

Analytically, the impairment provision associated with the individual position is determined as the difference between the nominal value of the loan and the estimated discounted future recovery flows. In the event that, with the passage of time, the prospects of recovery are revised upwards, or simply brought forward in time, the associated provision for impairment is passed through the income statement as revenue, and is called a write-back.

Asset quality and its evolution over time influence credit costs both in terms of capital absorption (weightings associated with the different risk classes, *RWA*) and in terms of the income statement (value adjustments, *ECL*).

The determination of the expected losses on the impaired loan portfolio (stage 3) also involves significant elements of judgement, with particular reference to the estimate of the flows deemed recoverable and the relative timing of recovery. The Group's Credit Policy makes provision for specific rules for the determination of hedges on impaired loans that take into account the evidence deriving from internal risk parameters (LGD and Danger Rate), from the assessment of the value of guarantees (financial collateral and/or mortgage), and from the presence of objective elements deriving from recovery procedures.

Forborne Exposures

The forbearance category cuts across existing risk classes and can include loans belonging to both Performing Exposures (sub-category of performing exposures) and Non-Performing Exposures (sub-category of non-performing exposures).

These are credit exposures for which modifications to the contractual terms and conditions or full or partial refinancing have been granted, due to the borrower's financial difficulties, which could result in a loss for the lender.

In order for the presumption of forbearance to be triggered, positions must have been past due for more than one month at least once in the three months preceding the contractual change, lowering the alarm threshold from the 90 days stipulated in the definition of default.

The time to exit the forborne performing status is at least two years. The verification of the conditions is performed once the probation period has elapsed, at the time of the first useful report. If these conditions are not met, the verification for exit from the forborne status is repeated at least after one quarter, or at the time of the new report. For the exit from forborne non-performing, however, what is specified in Article 157 of the EBA ITS applies, and thus, one year after renegotiation, in the presence of regular payments and in the absence of doubts about the borrower's solvency, an exposure may return to performing status while remaining classified as a forborne exposure for a further two years (probation period).

Template EU CR1-A: Maturity of exposures

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	1,060,399	5,365,693	2,727,047	2,440,601	-	11,593,739
2	Debt securities	-	1,814,869	1,006,067	984,720	-	3,805,656
3	**Total 31.12.2022**	**1,060,399**	**7,180,562**	**3,733,114**	**3,425,321**	**-**	**15,399,395**

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Template EU CR1: Performing and non-performing exposures and related provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				Performing exposures	Non-performing exposures
			Of which: stage 1	Of which: stage 2		Of which: stage 2	Of which: stage 3		Of which: stage 1	Of which: stage 2		Of which: stage 2	Of which: stage 3			
005	Cash balances at central banks and other demand deposits	907,363	907,363	-	-	-	-	113	113	-	-	-	-	-	-	-
010	**Loans and advances**	**11,496,240**	**9,345,734**	**2,147,160**	**393,725**	**-**	**387,001**	**100,885**	**14,579**	**86,207**	**195,341**	**-**	**192,834**	**1,881**	**7,558,518**	**178,996**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	184,560	184,529	13	296	-	296	2	1	-	38	-	38	-	-	-
040	Credit institutions	118,297	118,297	-	-	-	-	159	159	-	-	-	-	-	-	-
050	Other financial corporations	210,820	164,197	46,623	11,919	-	11,919	1,420	600	820	10,828	-	10,828	-	52,550	115
060	Non-financial corporations	6,005,128	4,528,844	1,475,232	259,978	-	256,518	64,179	6,623	57,530	141,763	-	140,388	1,853	3,915,899	109,374
070	*of which SMEs*	4,531,012	3,244,697	1,285,263	221,220	-	218,277	57,507	4,811	52,670	117,556	-	116,344	1,017	3,428,143	97,914
080	Households	4,977,435	4,349,867	625,292	121,532	-	118,268	35,125	7,196	27,857	42,712	-	41,580	28	3,590,069	69,507
090	**Debt securities**	**3,812,204**	**3,811,539**	**-**	**-**	**-**	**-**	**6,548**	**6,548**	**-**	**-**	**-**	**-**	**-**	**152,424**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	2,883,904	2,883,904	-	-	-	-	653	653	-	-	-	-	-	-	-
120	Credit institutions	460,396	460,396	-	-	-	-	1,226	1,226	-	-	-	-	-	-	-
130	Other financial corporations	403,742	403,077	-	-	-	-	4,508	4,508	-	-	-	-	-	152,424	-
140	Non-financial corporations	64,162	64,162	-	-	-	-	161	161	-	-	-	-		-	-
150	**Off-balance-sheet exposures**	**3,352,843**	**3,115,989**	**236,854**	**11,270**	**-**	**11,270**	**1,599**	**515**	**1,082**	**1,937**	**-**	**1,937**		**669,859**	**3,315**
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	General governments	57,035	57,036	-	-	-	-	-	-	-	-	-	-		-	-
180	Credit institutions	13,089	13,089	-	-	-	-	3	3	-	-	-	-		-	-
190	Other financial corporations	148,484	147,684	800	-	-	-	141	134	6	-	-	-		1,901	-
200	Non-financial corporations	2,900,294	2,679,622	220,672	10,646	-	10,646	1,223	230	993	1,865	-	1,865		618,340	3,128
210	Households	233,941	218,558	15,382	624	-	624	232	148	84	72	-	72	-	49,618	186
220	**Total 31.12.2022**	**19,568,650**	**17,180,625**	**2,384,014**	**404,995**	**-**	**398,271**	**109,145**	**21,755**	**87,289**	**197,278**	**-**	**194,771**	**1,881**	**8,380,801**	**182,311**

Template EU CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries

		a	b
		GROSS CARRYING AMOUNT	RELATED NET CUMULATIVE RECOVERIES
010	Initial stock of non-performing loans and advances	475,083	
020	Inflows to non-performing portfolios	213,820	
030	Outflows from non-performing portfolios	295,178	
040	Outflow to performing portfolio	6,940	
050	Outflow due to partial or total repayment of the loan	84,349	
060	Outflow due to collateral liquidations	129	(129)
070	Outflow due to the taking of collateral	-	-
080	Outflow due to the sale of instruments	156,690	(30,474)
090	Outflow due to risk transfers	5,710	(5,710)
100	Outflow due to write-offs	18,157	
110	Outflow due to other situations	23,203	
120	Outflow due to reclassification as held for sale	-	
130	Final stock of non-performing loans and advances	393,725	

Template EU CR2: Changes in the stock of non-performing loans and advances

		a
		GROSS CARRYING AMOUNT
010	Initial stock of non-performing loans and advances	475,083
020	Inflows to non-performing portfolios	213,820
030	Outflows from non-performing portfolios	295,178
040	Outflow due to write-offs	18,157
050	Outflow due to other situations	277,021
060	Final stock of non-performing loans and advances	393,725

Template EU CQ1: Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measured
				of which defaulted	of which impaired				
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	**Loans and advances**	**137,176**	**109,002**	**109,002**	**109,002**	**12,354**	**42,373**	**184,380**	**64,218**
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	1,968	34	34	34	188	16	1,798	18
060	Non-financial corporations	87,565	63,016	63,016	63,016	8,412	27,018	109,991	34,369
070	Households	47,643	45,952	45,952	45,952	3,754	15,339	72,590	29,832
080	Debt securities	-	-	-	-	-	-	-	-
090	Loan commitments given	489	169	169	169	2	-	459	101
100	**Total 31/12/2022**	**137,665**	**109,171**	**109,171**	**109,171**	**12,356**	**42,373**	**184,838**	**64,320**

Template EU CQ2 - Quality of Forbearance Measures

		a
		Gross carrying amount of exposures with forbearance measures
010	Loans and advances that have been subject to forbearance measures more than twice	3,855
020	Impaired loans and advances subject to forbearance measures that failed to meet the criteria for exclusion from the impaired category	58,324

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Template EU CQ3: Credit quality of performing and non-performing exposures by past due days

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	907,363	907,363	-	-	-	-	-	-	-	-	-	-
010	**Loans and advances**	**11,496,240**	**11,469,171**	**27,069**	**393,725**	**144,750**	**22,149**	**35,739**	**29,053**	**66,729**	**42,515**	**52,790**	**393,725**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	184,560	184,547	13	296	183	29	64	20	-	-	-	296
040	Credit institutions	118,297	118,297	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	210,820	209,050	1,770	11,919	140	-	7	21	8,249	3,400	102	11,919
060	Non-financial corporations	6,005,128	6,000,896	4,232	259,978	86,957	13,699	25,155	20,382	40,622	31,357	41,806	259,978
070	of which SMEs	4,531,012	4,526,822	4,190	221,220	80,484	11,554	22,412	15,569	35,484	21,935	33,782	221,220
080	Households	4,977,435	4,956,381	21,054	121,532	57,470	8,421	10,513	8,630	17,858	7,758	10,882	121,532
090	**Debt securities**	**3,812,204**	**3,812,204**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	2,883,904	2,883,904	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	460,396	460,396	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	403,742	403,742	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	64,162	64,162	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**3,352,843**			**11,270**								**11,270**
160	Central banks	-			-								-
170	General governments	57,035			-								-
180	Credit institutions	13,089			-								-
190	Other financial corporations	148,484			-								-
200	Non-financial corporations	2,900,294			10,646								10,646
210	Households	233,941			624								624
220	**Total 31.12.2022**	**19,568,650**	**16,188,738**	**27,069**	**404,995**	**144,750**	**22,149**	**35,739**	**29,053**	**66,729**	**42,515**	**52,790**	**404,995**

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Template EU CQ4: Quality of non-performing exposures by geography

		a	b	c	d	e	f	g
		Gross carrying amount/nominal amount				Accumulated impairment	Provisions for off-balance sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	On-balance-sheet exposures	15,702,189	393,725	393,725	14,578,928	302,774		-
020	Italy	15,464,603	393,159	393,159	14,341,341	302,239		-
030	Spain	105,381	67	67	105,381	102		-
040	France	50,822	-	-	50,822	56		-
050	United Kingdom	29,040	35	35	29,040	77		-
060	Germany	25,795	-	-	25,796	48		-
070	Other States	26,548	464	464	26,548	252		-
080	Off-balance-sheet exposures	3,364,114	11,270	11,270			3,534	
090	Italy	3,334,966	11,270	11,270			3,534	
100	Luxembourg	12,435	-	-			-	
110	France	10,000	-	-			-	
120	Switzerland	2,528	-	-			-	
130	Abu Dhabi	2,000	-	-			-	
140	Other States	2,185	-	-			-	
150	TOTAL 31/12/2022	19,066,303	404,995	404,995	14,578,928	302,774	3,534	-

Template EU CQ5: Credit quality of loans and advances to non-financial corporations by industry

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	197,918	10,208	10,208	197,918	6,954	-
020	Mining	9,035	568	568	9,035	458	-
030	Manufacturing	2,165,189	59,264	59,264	2,165,189	38,243	-
040	Electricity, gas, steam and air conditioning supply	37,962	3,242	3,242	37,962	2,270	-
050	Water supply	58,691	1,988	1,988	58,691	1,087	-
060	Construction	493,612	41,626	41,626	493,612	36,853	-
070	Wholesale and retail trade	1,565,262	54,923	54,923	1,565,262	39,418	-
080	Transport and storage	163,757	5,386	5,386	163,757	3,750	-
090	Accommodation and food service activities	276,527	15,051	15,051	276,527	14,219	-
100	Information and communication	111,569	6,054	6,054	111,569	2,014	-
110	Financial and insurance activities	10,071	1,149	1,149	10,071	601	-
120	Real estate activities	770,488	42,731	42,731	770,488	46,227	-
130	Professional, scientific and technical activities	141,704	5,559	5,559	141,704	5,777	-
140	Administrative and support service activities	134,273	8,333	8,333	134,273	5,305	-
150	Public administration and defence, compulsory social security	5,002	-	-	5,002	22	-
160	Education	9,210	120	120	9,210	206	-
170	Human health services and social work activities	54,904	709	709	54,904	595	-
180	Artistic, entertainment and recreation	25,235	1,937	1,937	25,235	1,242	-
190	Other services	34,697	1,130	1,130	34,697	703	-
200	Total 31.12.2022	6,265,106	259,978	259,978	6,265,106	205,944	-

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Template EU CQ6: Collateral valuation - loans and advances

		a	b	c	d	e	f	g	h	i	j	k	l
		Loans and advances											
			Performing		IMPAIRED								
							Past due > 90 days						
				Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days		Of which past due > 90 days ≤ 180 days	Of which past due > 180 days ≤ 1 year	Of which past due > 1 year ≤ 2 years	Of which past due > 2 years ≤ 5 years	Of which past due > 5 years ≤ 7 years	Of which past due > 7 years
010	Gross carrying amount	11,889,977	11,496,252	27,069	393,725	144,750	248,975	22,149	35,739	29,053	66,729	42,515	52,790
020	*of which guaranteed*	9,409,838	9,071,745	26,123	338,093	134,129	203,964	20,348	30,724	25,184	48,660	29,882	49,165
030	*of which secured by real estate*	4,534,394	4,353,150	453	181,243	90,924	90,319	8,337	14,124	9,484	25,164	18,585	14,626
040	*Of which instruments with LTV ratio above 60% and below or equal to 80%*	1,012,518	983,919		28,599	11,694	16,905						
050	*Of which instruments with LTV ratio above 80% and below or equal to 100%*	92,855	78,037		14,818	9,013	5,805						
060	*Of which instruments with LTV above 100%*	63,691	32,520		31,170	13,153	18,017						
070	Accumulated Impairment for Guaranteed Assets	244,879	88,654	200	156,225	41,726	114,499	5,603	11,366	10,795	29,038	16,963	40,734
080	Collateral												
090	*Of which value limited to exposure value*	4,840,912	4,715,597	2,865	125,314	66,849	58,465	6,037	9,471	6,381	16,798	12,189	7,589
100	*Of which real estate*	4,394,483	4,279,336	409	115,147	63,077	52,070	5,518	9,410	5,993	15,345	10,370	5,435
110	*Of which value over the limit*	7,661,114	7,275,171	2,334	385,943	167,550	218,393						
120	*Of which real estate*	7,348,125	7,024,787	1,048	323,338	162,830	160,507						
130	Financial guarantees received	2,896,602	2,842,921	2,046	53,682	23,966	29,716	8,120	9,280	7,879	2,613	775	1,049
140	Accumulated partial write-offs	1,882	-	-	1,882	-	1,882	-	-	-	-	-	1,882

9. Disclosure of the use of credit risk mitigation techniques[21]

Table EU CRC: Qualitative reporting requirements on CRM techniques

In the development of the operational process leading to the granting of credit, even in the presence of positive evaluations of the necessary requirements, the Group acquires, whenever possible, collateral and/or personal guarantees targeted at risk mitigation.

The Group makes use of mortgage, collateral/financial and personal guarantees issued by central governments or multilateral development banks for the purposes of eligibility for prudential supervision. The eligibility verification process adopted for mortgage guarantees is based on a decentralised management model; in fact, it envisages that, at the time of the guarantee registration procedure, the collection and logging of the information needed to verify the existence of eligibility requirements (without prejudice to the general requirements analysis activity performed by the competent central functions) is carried out by the Branch Network. In order to adequately monitor the registration activities, the Credit Department and the Operations and Systems Department periodically inform the sales network about anomalies detected by the diagnostic systems during the registration activity, urging their prompt removal. As far as financial collateral is concerned, the Group has set up a structured process for the collection and management of collateral with a focus on eligibility aspects (general and specific requirements) and has issued clear management/operational guidelines on the subject. Eligibility is therefore conferred on financial guarantees that pass the regulatory checkpoints implemented in the Group's information systems.

Personal guarantees consist mainly of sureties issued by individuals and companies. They are always valued on the basis of an assessment of the guarantor's assets, as part of the credit approval and/or renewal stages. As a result of the government initiatives to support the economic fabric during the Covid-19 emergency, in the last year, the guarantees issued by public entities such as MCC and Sace became particularly important. The guarantees collected by the Group are drawn up on the basis of contractual templates, in line with industry standards and legal guidelines, which are approved by the competent corporate functions.

Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

		Unsecured carrying amount	Secured carrying amount			
				of which secured by collateral	of which secured by	
						of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	4,763,484	7,737,514	4,840,912	2,896,602	-
2	Debt securities	3,653,232	152,424	-	152,424	
3	**Total 31/12/2022**	**8,416,716**	**7,889,938**	**4,840,912**	**3,049,026**	**-**
4	*of which non-performing exposures*	*19,389*	*178,996*	*125,314*	*53,682*	-
EU-5	of which defaulted	*19,389*	*178,996*			
	Total 30/06/2022	**9,127,487**	**8,147,597**	**4,905,347**	**3,242,250**	**-**

[21] See Art. 9 of Implementing Regulation (EU) 2021/637

10. Disclosure on the use of the standardised method[22]

Table EU CRD: Qualitative disclosure requirements related to standardised approach

For the purposes of determining the capital requirement for credit risk, the Group uses the Standardised Approach, which is prescribed for the determination of regulatory requirements for such risk (Circ. 285/13 Part Two - Chapter 3, Section I). In this context, the Group uses - where available - the credit ratings issued by the specialised rating agency Moody's to determine the weighting factors for the exposures included in the following portfolios:

- "Central governments and central banks" and, indirectly, "Supervised Intermediaries", "Public Sector Entities" and "Local Authorities";
- "Companies and other entities'.

As part of the capital management initiatives and the strengthening of management controls to support the processes of monitoring and controlling credit risks, the Group used the ECAI rating issuance service by the ESMA-authorised company ModeFinance for the year 2022, in order to achieve benefits of both a management nature (availability of external ratings on the Banco Desio Group's main corporate counterparties) and a capital nature (calculation of the capital requirement to cover credit risk). The rating issued is mapped on a scale of 21 classes identified by an alphanumeric code and ranging from A1 (highest creditworthiness) to C3 (lowest creditworthiness).

For all other exposures not included in the above regulatory classes, reference is instead made to the various risk weights provided for in the regulations for the standardised approach.

[22] See Art. 10 of Implementing Regulation (EU) 2021/637

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Template EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWA	RWA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	4,527,737	42,165	6,812,358	2,156	239,647	3.5167%
2	Regional governments or local authorities	652	14,553	1,739	3	348	20.0000%
3	Public sector entities	3,658	168	3,658	7	1,905	51.9954%
4	Multilateral development banks	820	-	8,461	40	907	10.6752%
5	International organisations	-	-	-	-	-	-
6	Institutions	652,596	15,613	662,678	1,613	305,303	45.9593%
7	Corporates	3,605,885	1,577,730	2,694,275	153,122	2,512,736	88.2468%
8	Retail	3,889,855	1,673,870	2,716,951	64,314	1,488,573	53.5215%
9	Secured by mortgages on immovable property	3,682,143	-	3,611,381	-	1,303,147	36.0845%
10	Exposures in default	196,274	9,302	150,581	1,192	161,194	106.2071%
11	Exposures associated with particularly high risk	74,281	11,201	73,578	4,451	117,044	150.0000%
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	112,335	-	112,335	-	126,621	112.7171%
15	Equity instruments	86,487	-	93,743	-	92,259	98.4174%
16	Other items	464,107	15,942	507,516	30,742	381,366	70.8513%
17	TOTAL 31/12/2022	17,296,830	3,360,544	17,449,254	257,640	6,731,050	38.0137%
	TOTAL 30/06/2022	18,118,553	3,281,067	18,283,790	239,658	6,615,403	35.7137%

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Template EU CR5: Standardised approach

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	6,660,093	-	-	-	889	-	678	-	-	95,278	-	57,577	-	-	-	6,814,515	-
2	Regional governments or local authorities	-	-	-	-	1,742	-	-	-	-	-	-	-	-	-	-	1,742	-
3	Public sector entities	-	-	-	-	-	-	3,519	-	-	146	-	-	-	-	-	3,665	-
4	Multilateral development banks	3,222	-	-	-	5,278	-	-	-	-	-	-	-	-	-	-	8,500	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	2,281	36,286	-	-	219,093	-	296,347	-	-	104,330	5,954	-	-	-	-	664,291	-
7	Corporates	-	-	-	-	57,427	-	245,687	5,092	-	2,294,565	244,626	-	-	-	-	2,847,397	-
8	Retail exposures	-	-	-	-	-	907,010	-	-	1,874,255	-	-	-	-	-	-	2,781,265	-
9	Secured by mortgages of immovable properties	-	-	-	-	-	2,938,604	672,777	-	-	-	-	-	-	-	-	3,611,381	-
10	Exposures in default	-	-	-	-	-	-	-	-	-	132,932	18,841	-	-	-	-	151,773	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	78,030	-	-	-	-	78,030	-
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	511	-	-	-	-	-	-	-	-	7,576	-	-	-	11	104,237	112,335	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	93,743	-	-	-	-	-	93,743	-
16	Other items	113,971	-	-	-	42,119	13,073	-	-	2,871	366,223	-	-	-	-	-	538,257	-
17	TOTAL 31/12/2022	6,780,078	36,286	-	-	326,548	3,858,687	1,219,008	5,092	1,877,126	3,094,793	347,451	57,577	-	11	104,237	17,706,894	-
	TOTAL 30/06/2022	7,809,816	-	-	-	337,432	3,803,530	1,211,076	7,290	1,785,184	2,994,036	443,140	47,843	-	11	84,089	18,523,447	-

11. Disclosure of counterparty risk exposures[23]

Table EU CCRA: Qualitative information about counterparty risk

The CRRII, which came into force on 28 June 2021, provided for the full replacement of the Standardised Approach and the Market Value Approach with a new standardised method for calculating the value of EAD in derivative instruments ("SA-CCR").

The new standardised approach aims to lead to capital requirements that better reflect the risks associated with derivative transactions (more risk-sensitive methodology), while recognising the benefits of clearing. The new regulatory framework provides for the possibility of determining the capital requirement for Counterparty Risk using simplified methodologies depending on the size of the institution's derivatives business (original exposure approach for derivatives business size not exceeding 5% total assets and EUR 100/mln and simplified approach for derivatives business size not exceeding 10% of total assets and EUR 300/mln). A new method of accounting for exposures to central counterparties and eligible central counterparties was also introduced.

At the reporting date, Banco Desio used the simplified standardised method for calculating counterparty risk.

In the context of this methodological choice, the Group refers to the present value method for the calculation of the exposure value, as provided for by the regulations (Circular No. 285/13 Part Two - Chapter 7, Section I).

For a more accurate analysis of the methodology used to assign the defined internal capital and credit limits on credit exposures to a counterparty and of the risk management objectives and relevant CCR policies, see Section 2. Disclosure of risk management objectives and policies (Art. 2 Reg. 2021/637) - Table EU OVA: Institution risk management approach.

[23] See Art. 13 of Implementing Regulation (EU) 2021/637

Template EU CCR1: Analysis of CCR exposure by approach

		a	b	c	d	e	f	g	h
		Replacement Cost (RC)	Potential Future Exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	-	-			-	-	-	-
EU-2	EU - Simplified SA-CCR (for derivatives)	27,981	34,618			87,639	87,639	87,639	34,770
1	SA-CCR (for derivatives)	-	-			-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*of which securities financing transactions netting sets*			-		-	-	-	-
2b	*of which derivatives and long settlement transactions netting sets*			-		-	-	-	-
2c	*of which from contractual cross-product netting sets*			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					321,121	321,121	321,121	57,522
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	Total 31/12/2022	27,981	34,618			408,760	408,760	408,760	92,292
	Total 30/06/2022					172,205	172,205	172,205	34,366

Template EU CCR2: Transactions subject to own funds requirements for CVA risk

		a	b
		Exposure value	RWEA
1	Total transactions subject to the Advanced method	-	-
2	i) VaR component (including the 3× multiplier)		-
3	ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	87,639	121,393
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	Total 31/12/2022	87,639	121,393
	Total 30/06/2022	57,588	50,453

Template EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

	Exposure classes	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	208,174	40,833	-	-	1,803	-	-	250,810
7	Corporates	-	-	-	-	9	34	-	-	6,853	1,047	-	7,944
8	Retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	552,439	-	-	-	100,000	-	-	-	-	-	-	652,439
11	Total exposure value 31/12/2022	552,439	-	-	-	308,183	40,867	-	-	8,656	1,047	-	911,193
	Total exposure value 30/06/2022	279,855	-	-	-	110,639	542	-	-	10,482	1,909	-	403,426

Template EU CCR8: Exposures to CCPs

		Exposure value	RWEA
		a	b
1	**Exposures to QCCP (total)**		556
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which:	-	-
3	*i) OTC derivatives*	-	-
4	*ii) exchange-traded derivatives*	-	-
5	*iii) SFTs*	-	-
6	*iv) netting sets where cross-product netting has been approved*	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	-	-
9	Pre-funded guarantee fund contributions	-	556
10	Unfunded guarantee fund contributions	-	-
11	**Exposures to non-QCCP (total)**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and guarantee fund contributions), of which:	-	-
13	*i) OTC derivatives*	-	-
14	*ii) exchange-traded derivatives*	-	-
15	*iii) SFTs*	-	-
16	*iv) netting sets where cross-product netting has been approved*	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Pre-funded guarantee fund contributions	-	-
20	Unfunded guarantee fund contributions	-	-

12. Disclosure of exposures in securitisation positions[24]

Table EU SECA: Qualitative disclosure requirements related to securitisation exposures

Third-party securitisation transactions

During the 2020 financial year, with a view to diversifying its securities portfolio and in search of an attractive yield, the Bank made an investment of EUR 5 million in senior notes issued by the special purpose vehicle Viveracqua maturing in 2034 with the underlying 6 bond issues of companies operating in the water sector.

Also with a view to diversifying its securities portfolio during 2021, investments were made in senior tranches of third-party securitisations as follows:

- EUR 30 million referred to a standardised transparent simple senior issue ("STS") of Kripton SPV with underlying loans to SMEs guaranteed by Medio Credito Centrale: as at 31 December 2022, the transaction is still in the ramp-up phase and payments of about EUR 28.1 million have been made;
- EUR 15 million related to a senior issue of the P2P vehicle Lendit with underlying consumer credit loans to private individuals as at 31 December 2021 the transaction is still in the ramp-up phase and about EUR 6.7 million has been paid in.

In 2020, the Bank subscribed to a security (Asset-Backed Security or "ABS")[25] for EUR 50 million, issued by Lumen SPV S.r.l. (special purpose vehicle or "SPV"), having as underlying assets medium- to long-term loans granted by Credimi S.p.A. ("Originator") to SMEs and assisted by a guarantee from Medio Credito Centrale (MCC) as provided for by Decree Law 23 of 8 April 2020 (Liquidity Decree). During 2021, another Lumen issue with underlying loans of the same type was subscribed for a further EUR 50 million.

The objectives of the initiative are:

- obtaining an expected return consistent with the risk profile of the transaction with underlying financing guaranteed by Medio Credito Centrale;
- increasing the customer base with a target in line with commercial and credit policies (geography, company size and expected portfolio loss);
- starting operations on fintech channels (co-branded portal) that allow customers to have a completely on-line, simple and fast user experience.

Own securitisation transactions

During the course of 2018, a securitisation transaction was carried out with recourse to the procedure for the release by the Italian State of the guarantee on the securitisation of non-performing loans on senior securities pursuant to Decree-Law. 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross countervalue of EUR 1.0 billion (the "Transaction").

The Transaction was structured in order to realise the significant transfer of credit risk associated with the securitised receivables ("SRT") pursuant to Articles 243 et seq. of Regulation (EU) No. 575/2013; the reference non-performing loans portfolio, transferred on 12 June 2018 to the special purpose vehicle "2Worlds s.r.l." ("SPV" or "Vehicle") specifically set up, is composed of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and Banca Popolare di Spoleto in favour of "secured" customers, i.e. with transactions secured by mortgages, and "unsecured", i.e. with transactions without collateral.

On 25 June 2018, the SPV therefore issued the following classes of Asset-Backed Securities (ABS):

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[24] See Art. 14 of Implementing Regulation (EU) 2021/637

[25] These are single-tranche securities conventionally represented among securitisation investments for which information on the composition of the underlying portfolio is always available.

- senior securities amounting to EUR 288.5 million, corresponding to 28.8% of the Gross Book Value (GBV) at the date of identification of the loans on 31 December 2020, which were rated "BBB Low" and "BBB" respectively by DBRS Ratings Ltd and Scope Ratings GmbH;
- mezzanine securities in the amount of EUR 30.2 million, which were rated "B Low" and "B" by DBRS Ratings Ltd and Scope Ratings GmbH, respectively;
- junior securities in the amount of EUR 9.0 million, unrated.

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 through the settlement of the transaction itself and thus the deconsolidation of the transferred non-performing loans.

On 3 October 2018, the Banco Desio Group received formal notice that the Minister of the Economy and Finance, by order of 5 September 2018, granted the State guarantee on the senior securities issued by the Vehicle with effect as of the date of adoption of the aforesaid order as the conditions provided for by the Decree Law 18/2016 had already been verified.

In December 2021, Banco Desio also participated in a multi-originator securitisation of non-performing loans with a GACS state guarantee carried out by the Cassa Centrale Banca team (Buonconsiglio 4). In particular, on 15 December, the Bank finalised the sale without recourse in the form of a securitisation, carried out pursuant to Law 130/1999 (the "Transaction"), of a portfolio of non-performing positions ("NPLs") with a total gross value ("GBV") of EUR 22.9 million, in favour of the Special Purpose Vehicle "Buonconsiglio 4 S.r.l." ("SPV" or "Vehicle").

In order to comply with the retention obligation under (i) Art. 405, para. 1, of EU Regulation 575/2013 ("CRR"), (ii) Article 51, par. 1, of Delegated Regulation (EU) 231/2013 ("AIMFD Regulation") and (iii) Article 254 of Delegated Regulation (EU) 35/2015 ("Solvency II Regulation"), the Group has decided to maintain a net economic interest of the nominal value of each Junior (approximately 7%) and Mezzanine (approximately 6%) tranche transferred to third party investors, in addition to maintaining 100% of the Senior tranche, pursuant to Article 405, para. 1(a) of the CRR. The consideration for the sale, amounting to EUR 4.59 million (gross of the collections of EUR 90,000 relating to the period 1 August 2021 - 1 December 2021, as provided for by the GACS Decree of 3 August 2016, Article 2, paragraph 1, letter a), was recognised through the subscription by BDB of ABS securities ("Notes") issued by the SPV on 14 December 2021, against the NPLs acquired pro-rata by each transferring bank. On 15 December 2021, Banco di Desio e della Brianza signed the final binding agreement for the sale by the Originator banks of approximately 94% of the Mezzanine securities and 93% of the Junior securities formulated by a third-party institutional investor for a pro-rata consideration of EUR 202,322, collecting the consideration on the scheduled settlement date of the securities transaction, i.e. 17 December 2021.

Following the finalisation of the transaction in December, the request was sent to the "MEF" to obtain the guarantee on the senior bond, whose process is still in the finalisation stage; at the date of preparation of this document, the conditions for the recognition of the significant risk transfer of the assigned receivables for prudential purposes had already been met.

During Q4 2022, the Bank carried out a self-securitisation of part of the loans produced by Fides s.p.a. through Coppede' SPV S.r.l. ("SPV" or "vehicle"), with the following characteristics:

- EUR 463 million senior bond rated Moody's Aa3 (sf), plain transparent standardised ("STS")
- Junior securities, amounting to EUR 71.362 million, unrated

Exposure calculation methods

The Banco Desio Group uses the "standardised approach" to calculate the capital requirement for securitisation exposures.

Accounting Impacts

The accounting policies adopted by the Banco Desio Group regarding the treatment and accounting of loan securitisation transactions are aligned with the provisions of IFRS 9 concerning the derecognition of a financial asset or financial liability.

The standard provides that, in the event of the substantial transfer of all risks and rewards inherent in the transferred items to the transferee, the transferred assets are derecognised with the consideration received recognised as a balancing entry and the recognition of any gain or loss arising from the sale or purchase.

If, on the other hand, the rules of IFRS 9 are not met, the transferor does not derecognise the asset from the balance sheet, but recognises, as a balancing entry to the consideration received, a liability to the transferee without recognising any gain or loss arising from the sale. In the case under analysis of receivables securitisation transactions, the non-cancellation of such items from the originator's assets occurs when the originator assigns a portion of its receivables to the SPV in exchange for the subscription of securities (at least those of a lower class, known as junior) issued by the latter, thus remaining exposed to the risks and rewards associated with the assigned assets.

The securitisation transaction carried out by the Banco Desio Group with reference to the sale of non-performing loans, as a result of the sale of 95% of the junior and mezzanine notes, meets the IAS/IFRS requirements for derecognition and was therefore accounted for in the manner described. As a contra-entry to the derecognition of the transferred assets, the bank recognised the senior securities with state guarantee (valued at amortised cost) and 5% of the junior and mezzanine securities (valued at fair value as per mandatory requirements), recognising the difference between the derecognised assets and the consideration obtained as a loss on disposal.

The exposure in the balance sheet represents:

- the value of senior securities, recorded in the held-to-collect portfolio and recognised at amortised cost (including upfront costs incurred and accrued interest and net of expected loss - ECL);
- the fair value of mezzanine and junior securities held, which are recognised as financial assets measured at fair value as per mandatory requirements.

Template EU-SEC1: Securitisation exposures in the non-trading book

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as transferor							Institution acts as promoter				Institution acts as an investor			
		Traditional				Synthetic		Subtotal	Traditional		Synthetic	Subtotal	Traditional		Synthetic	Subtotal
		STS		Non-STS			of which SRT		STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT											
1	**Total exposures 31.12.2022**	-	-	665	665	-	-	665	-	-	-	-	-	32,271	-	32,271
2	**Retail (total)**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Residential mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Credit cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	**Wholesale (total)**	-	-	665	665	-	-	665	-	-	-	-	-	-	-	-
8	Loans to corporates	-	-	665	665	-	-	665	-	-	-	-	-	-	-	-
9	Commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Leasing and Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	**Total exposures 30.06.2022**	-	-	13	833	-	-	833	-	-	-	-	-	31,253	-	31,253

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Template EU-SEC3 - Securitisation exposures in the non-trading book and associated regulatory capital requirements: institution acting as transferor or promoter

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	EU-p	EU-q
		Exposure values (per RW/deduction band)					Exposure values (by regulatory method)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20 % RW	>20% TO 50% RW	>50% TO 100% RW	>100% TO <1250% RW	1250% RW/ DEDUCTIONS	SEC-IRBA	SEC-GRASS (INCL. IAA)	SEC-SA	1250% RW/ DEDUCTIONS	SEC-IRBA	SEC-GRASS (INCL. IAA)	SEC-SA	1250% RW	SEC-IRBA	SEC-GRASS (INCL. IAA)	SEC-SA	1250% RW
1	Total exposures 31.12.2022	-	-	-	665	-	-	-	29	-	-	-	217	7,947	-	-	17	636
2	Traditional operations	-	-	-	665	-	-	-	29	-	-	-	217	7,947	-	-	17	636
3	Securitisation	-	-	-	665	-	-	-	29	-	-	-	217	7,947	-	-	17	636
4	Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	*of which STS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	665	-	-	-	29	-	-	-	217	7,947	-	-	17	636
7	*of which STS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Total exposures 30.06.2022	-	-	-	833	-	-	-	13	-	-	-	94	10,248	-	-	7	820

Template EU-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements: institution acting as investor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	EU-p	EU-q
		Exposure values (per RW/deduction band)					Exposure values (by regulatory method)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20 % RW	>20% TO 50% RW	>50% TO 100% RW	>100% TO <1250% RW	1250% RW/ DEDUCTIONS	SEC-IRBA	SEC-GRASS (INCL. IAA)	SEC-SA	1250% RW/ DEDUCTIONS	SEC-IRBA	SEC-GRASS (INCL. IAA)	SEC-SA	1250% RW	SEC-IRBA	SEC-GRASS (INCL. IAA)	SEC-SA	1250% RW
1	Total exposures as at 31.12.2022	32,271	-	-	4,941	-	-	-	37,212	-	-	-	14,517	-	-	-	709	-
2	Traditional securitisation	32,271	-	-	4,941	-	-	-	37,212	-	-	-	14,517	-	-	-	709	-
3	Securitisation	32,271	-	-	4,941	-	-	-	37,212	-	-	-	14,517	-	-	-	709	-
4	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	*of which STS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	*of which STS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Total exposures as at 30.06.2022	31,253	-	-	4,947	-	-	-	36,200	-	-	-	14,412	-	-	-	665	-

Template EU-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

		a	b	c
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			of which exposures in default	
1	Total exposures 31.12.2022	1,389,318	905,719	302
2	Retail (total)	483,599	-	268
3	Residential mortgage	-	-	-
4	Credit cards	-	-	-
5	Other retail exposures	483,599	-	268
6	Re-securitisation	-	-	-
7	Wholesale (total)	905,719	905,719	34
8	Loans to corporates	905,719	905,719	34
9	Commercial mortgage	-	-	-
10	Leasing and Credit	-	-	-
11	Other wholesale	-	-	-
12	Re-securitisation	-	-	-
13	Total exposures 30.06.2022	905,719	905,719	40

The exposures securitised by the institution refer to securities held as part of non-performing loans transactions under the GACS scheme; outstanding exposures include EUR 178,714 thousand referring to senior exposures with state guarantee, fully guaranteed and consequently not included in the tables above.

13. Disclosure on the use of the Standardised Approach for Market Risk[26]

Table EU MRA: Qualitative disclosure requirements related to market risk

Market risk capital requirements on the trading book are determined according to the standardised approach as defined by supervisory regulations. This method involves calculating the requirement on the basis of the "building-block approach", according to which the overall requirement is the sum of the capital requirements determined against individual risks. As part of this methodological choice, the Group refers to the provisions of the regulations (Circular No. 285/13 Part Two - Chapter 9, Section I).

For a more detailed analysis of the market risk management strategies and processes, the structure and organisation of the risk management function and the relationships between the credit risk management, risk control, compliance control and internal audit functions, please refer to the description in Section 2. Disclosure of risk management objectives and policies (Art. 2 Reg. 2021/637) - Table EU OVA: Institution risk management approach.

Template EU MR1: Market risk under the standardised approach

		a
		RWEA
	Outright products	
1	Interest rate risk (general and specific)	17,622
2	Equity risk (general and specific)	3,218
3	Foreign exchange risk	-
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus approach	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	Total 31.12.2022	20,840
	Total 30.06.2022	22,100

[26] See Art. 15 of Implementing Regulation (EU) 2021/637

14. Operational Risk Disclosure[27]

Table EU ORA: Qualitative Information on Operational Risk

For the purpose of measuring the prudential requirement for operational risk, the Group, in consideration of its organisational, operational and size profiles, decided to apply the Traditional Standardised Approach (TSA).

For a more detailed analysis on operational risk management objectives and policies, please refer to what has already been described in Section 2. Disclosure of risk management objectives and policies (Art. 2 Reg. 2021/637) - Table EU OVA: Institution risk management approach.

Template EU OR1: Operational risk own funds requirements and risk-weighted exposure amounts

Banking activities		a	b	c	d	e
		Relevant indicator			Own Funds requirements	Risk exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	376,457	433,307	448,620	54,596	682,444
3	Subject to TSA	376,457	433,307	448,620		
4	Subject to ASA	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

[27] See Art. 16 of Implementing Regulation (EU) 2021/637

15. Disclosure of interest rate risk exposures on positions not included in the trading book[28]

Table EU IRRBBA - Qualitative information on interest rate risk of non-trading book activities

Qualitative information

For the purposes of regulatory supervision, the Group uses the calculation methodologies set forth in the reference regulations, Circular No. 285 of 2013 (Part One, Title III, Chapter 1, Annex C and C-bis) and in compliance with the criteria defined by the EBA guidelines (ABE/GL/2018/02).

To determine the exposure to interest rate risk on the banking book, the Group measures the potential impact on both the economic value and the interest margin, considering different scenarios of changes in the level and shape of the yield curve, in accordance with the supervisory regulations and respecting the criteria defined by the EBA guidelines with the application of the minimum floor to the post-shock rate.

Consistent with its membership of Regulatory Class 2, the Group adopts an approach that incorporates certain evolutions from the application of the simplified methodology proposed by Circular No. 285.

The main modelling assumptions refer to the use of management data, performed on the basis of the findings of the internal re-pricing gap model and the application of a statistical-behavioural model for items without contractual maturity.

Quantitative information

Economic value sensitivity is calculated by applying interest rate shocks as defined by the EBA guidelines (EBA/GL/2018/02), referring only to the euro currency and applied to the entire portfolio, as other currencies are not relevant:

- parallel upward shock (+200bp);
- parallel downward shock (-200bp);
- steepener shock (fall in short-term rates and rise in long-term rates);
- flattener shock (rise in short-term rates and fall in long-term rates);
- shock up of short-term rates;
- shock down of long-term rates.

The table below provides a representation of the change in economic value for each rate shock.

(figures in €m)	*Change in Economic Value*
Rate shock	31/12/2022
parallel upward shock (+200bp;	*-63.013*
parallel downward shock (-200bp)	*63.013*
steepener shock	*-51.170*
flattener shock;	*42.396*
shock up of short-term rates	*22.588*
shock down of long-term rates	*-22.588*

The bank is structurally exposed to the risk of rising rates from the perspective of economic value sensitivity. This exposure decreased over the course of 2022, mainly due to the implementation of hedges on the fixed-rate asset portfolio. In contrast,

[28] See Art. *16a* of Implementing Regulation (EU) 2021/637

the shift of TLTRO transactions and covered bonds issued as natural maturities approached and the increase in fixed-rate assets on longer maturities, such as financial instruments and instalments, contributed in the opposite direction.

Risk exposure remains within the limits defined by prudential supervisory regulations (Circular No. 285 of 2013).

The sensitivity of net interest income is calculated on an annual horizon under constant balance sheet assumptions, starting from the actual repricing date until the end of the simulation period, with the application of regulatory prudential interest rate shocks, only the euro currency is material as other currencies are not relevant:

- parallel upward shock (+200bp);
- parallel downward shock (-200bp);

Template EU IRRBB1 - Interest rate risks of non-trading book activities

The table below provides a representation of the change in economic value for each rate shock.

(figures in €m)	*Change in net interest income*
Rate shock	31/12/2022
parallel upward shock (+200bp)	*77.492*
parallel downward shock (-200bp)	*-67.726*

The bank is structurally exposed to the downside risk of interest rates, from an interest margin perspective.

16. Remuneration policy disclosure[29]

Qualitative information

Table EU REMA: remuneration policy

a) Information relating to the bodies that oversee remuneration.

BOARD OF DIRECTORS

First and last name	Role
Stefano Lado	Chairperson
Alessandro Decio	Chief Executive Officer and General Manager
Graziella Bologna	Director
Valentina Casella	Director
Ulrico Dragoni	Director
Cristina Finocchi Mahne	Director
Agostino Gavazzi	Director
Tito Gavazzi	Director
Giulia Pusterla	Director
Laura Tulli	Director
Gerolamo Giuseppe Gavazzi	Director

REMUNERATION COMMITTEE

Valentina Casella	Chairperson of the Remuneration Committee
Laura Tulli	Member of the Remuneration Committee
Ulrico Dragoni	Member of the Remuneration Committee

Number of meetings in 2022: 10 (some in joint session with the Control, Risk and Sustainability Committee)

External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework

The company Willis Towers Watson was commissioned by the CEO/GM in 2022 to assist in the preparation of the Report on Remuneration Policy.

Description of the scope of the institution's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to subsidiaries and branches located in third countries

The remuneration policy is defined in two macro-types: one for the key personnel and the other for the remaining personnel. Within the scope of potential beneficiaries, there are specific provisions with target bonuses differentiated according to the role of the personnel involved (higher for those in the "main lines of business").

[29] See Art. 17 of Implementing Regulation (EU) 2021/637

Banco Desio

Description of the staff or categories of staff whose professional activities have a material impact on institutions' risk profile

The categories of personnel that have a significant impact on the risk profile of the institution are those that are identified annually in accordance with the provisions in force, on the basis of qualitative and quantitative criteria, and correspond, in addition to the members of the Board of Directors, to the Chief Executive Officer/General Manager, the Managers of Head Offices, the heads of control functions and those who hold roles falling within the qualitative and quantitative criteria of the PPR.

b) Information relating to the design and structure of the remuneration system for key personnel.

Disclosures shall include an overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders

The 2022 remuneration policy envisages that the remuneration systems adopted are, in the interest of all stakeholders and in compliance with the instructions of the Supervisory Authority, aligned with the strategy and corporate objectives that are sustainable over the long term, linked to the company's results appropriately adjusted to take into account all risks, consistent with the levels of capital and liquidity necessary to cover the activities undertaken and, in any case, such as to avoid incentives that may lead to conflicts of interest and induce excessive risk-taking.

Consistent with the Business Plan, the 2022 Remuneration Policy has defined the objectives of the incentive system in a way that is closely integrated with the Plan actions from a medium-long term perspective, balancing economic-financial aspects and strategic actions consistent with the Group's social responsibility.

In summary, the main features of the 2022 Remuneration Report as compared to the remuneration policy approved by shareholders in 2021 concern:

- Definition of an objectives sheet divided into an Economic-Financial macro area (Value Creation and Risk Management) and a macro area related to the Activation of Strategic Plan Guidelines and specific initiatives.
- Formalisation of a "top-down" approach to the definition of the overall Bonus Pool closely correlated to the level of Rorac with respect to the budget, as a further reinforcement of the alignment between the overall variable remuneration system and income results that take into account the risks assumed, in addition to capital strength and liquidity.
- Gradual extension of the incentive system to the various office managers, in order to support the alignment between individual action and strategic objectives and strengthen the sense of teamwork in the achievement of corporate objectives.
- Consistent with the social responsibility that characterises the Group's long-term strategy, the ESG objectives pursued were set out, with particular reference to environmental sustainability and inclusive management policies.

The policy, prepared with the contribution of the corporate functions concerned under the coordination of the Resources Department, was first submitted to the Remuneration Committee, then approved by the Board of Directors and submitted to the Shareholders' Meeting in April.

Information on the criteria used for performance measurement and *ex ante* and *ex post* risk adjustment

At the beginning of the year, criteria were defined for evaluating the performance of individuals, centred on qualitative/quantitative elements, formalised in an objectives sheet divided into an Economic-Financial macro area (Value Creation and Risk Management) and a macro area related to the Activation of the Strategic Plan Guidelines and specific initiatives.

For each KPI, specific targets to be achieved have been assigned in advance and the evaluating body has been identified *ex ante*.

The bonus may be reduced, up to zero (*malus*), in the event of disciplinary action or evidence of non-compliance for excessive risk-taking activities, non-compliance with legal or statutory provisions or with the code of ethics, other standards of conduct or violation of internal and/or external regulations resulting in a significant loss for the Bank or its customers (as defined by the Board of Directors), including the prohibition to use personal hedging or remuneration insurance strategies or other aspects that may alter or affect risk alignment.

The Bank proceeds through clawback actions, in whole or in part, for variable remuneration already paid and the discontinuation of deferred components in the event of evidence within five years of the variable remuneration accrual or payment of the same, of personnel conduct that caused or contributed to:

- violation of codes of ethics or other standards of conduct, and/or internal or external regulations resulting in a significant loss for the Bank or its customers;
- violations of the obligations imposed pursuant to Article 26 or, when the person is an interested party, Article 53(4) et seq. of the Consolidated Banking Act or of remuneration and incentive obligations;
- violations of the rules of the Consolidated Law on Finance concerning remuneration and incentive obligations;
- fraudulent or grossly negligent conduct to the detriment of the Bank;
- as well as conduct resulting in disciplinary sanctions (ranging from suspension from service to dismissal for just cause or justified subjective reason);
- limited to the Chief Executive Officer/General Manager and to Executives with Strategic Responsibilities, in the event that, following the restatement of the Financial Statements, the satisfaction of the conditions underlying the incentive component (access conditions and/or objectives) is not confirmed.

These provisions are independent of any indemnity or disciplinary profiles and are also activated taking into account the relevant contribution and tax profiles.

Whether the management body or the remuneration committee where established reviewed the institution’s remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration

During 2022, the Remuneration Policy and Compensation Report was reviewed by the Corporate Bodies to align it with new regulations and industry best practices.

In summary, the main changes introduced in the 2022 Remuneration Report compared to the remuneration policy approved by shareholders in 2021 concern the "*progressive extension of the incentive system to the various office managers in order to support the alignment between individual action and strategic objectives and strengthen the sense of teamwork in the achievement of corporate objectives*".

Consistent with the social responsibility that characterises the Group's long-term strategy, the ESG objectives pursued were set out and strengthened, the remuneration policy was supplemented with a specific focus on gender equality, making a comparison based on a granular analysis of the roles concerned and establishing annual trend monitoring.

Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee;

The personnel of the control functions, with particular reference to the key personnel, receive a fixed remuneration of an adequate amount, such as to compensate for the limitation of variable remuneration attributable, in relation to performance, which in any case must be independent from parameters linked to profitability (for these personnel, in fact, the profitability gate is limited to a positive economic result and there are no indicators linked to the controlled activities within the individual objectives sheet). In addition, for this category of personnel, the Bank has defined target bonus percentages that are more prudent than the supervisory limits.

Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

No sums were planned or paid as guaranteed variable remuneration.

The Banco Desio Group adopts the following criteria for determining the remuneration to be granted in the event of early termination of employment or early departure from office:

A) for all staff

- the limit on remuneration is set at 2 years of fixed remuneration. For personnel hired under employment contracts, any compensation for termination of employment determined within the above-mentioned limits is to be understood as supplementing the indemnity in lieu of notice and replacing possible additional applications governed by the CCNL (national collective labour agreement);
- the total amount disbursed to an individual staff member may in no case exceed the limit of EUR 1.5 million, the amount being subject to claw back;
- any remuneration disbursed is subject to the same *malus* and claw back rules provided for variable remuneration; in particular, the Bank shall take action to repay the amounts disbursed in the event of ascertainment, within 5 years from the payment of the immediate or deferred component, of conduct by employees, directors or associates benefiting from the same during the period of employment, in violation of internal or external rules or regulations, resulting in a loss considered "significant" for the Bank, in violation of the conditions and limits for the assumption of risk activities with respect to those who can influence the management of the Bank and persons connected to it (pursuant to art. 53 paragraphs 4 et seq. of the Consolidated Banking Act (TUB)), violation of remuneration and incentive obligations and fraudulent and grossly negligent conduct, with reference to Executives with Strategic Responsibilities, in the case of data relating to gates or vesting conditions that later proved to be manifestly incorrect.

B) for the key personnel, in addition to the criteria indicated under A)

- the amount is also determined taking into account the individual's performance and the Bank's liquidity, capital and earnings conditions;
- with reference to professionals with particularly significant characteristics, such that the termination of the relationship may entail risks, the Bank reserves the right to define, on a case-by-case basis, non-competition agreements providing for the recognition of a consideration commensurate with the duration and extent of the obligation arising from the agreement itself after the termination of the employment relationship and/or cessation of the office.
- Consistently with regulatory provisions, if the relevant remuneration is defined within the limit of one year's fixed remuneration, it is not subject to the verification of alignment with the Bank's overall results, individual performance or length of employment, nor to the rules relating to the structuring of payment, with particular reference to deferral, *malus* and division between cash and financial instruments;
- "Golden Parachutes" are included in the calculation of the incidence of variable remuneration compared to fixed remuneration in the last year of employment or tenure, with the exception of:
  - Amounts agreed and recognised as non-competition covenants for the portion that, for each year of the term of the covenant, does not exceed the last year of fixed remuneration;
  - Amounts agreed and recognised as part of an agreement between the bank and the staff, wherever reached, for the settlement of an actual or potential dispute defined by multiplying
    - 2 months for Risk Takers
    - 6 months' salary for control functions of the annual global remuneration (gross annual remuneration of the last year with the addition of the average of the amounts paid under the annual incentive scheme, whether upfront or deferred, in the previous two years) for the number of years of seniority in each case within the maximum amount defined by the Meeting.

- the amount will be paid in the manner provided for the variable remuneration of Risk Taker personnel (deferment, correlation to share performance, *malus,* claw back).
- for the key personnel hired under employment contracts, the payment modalities provided for the variable remuneration of the key Risk Taker personnel, apply for the portion of the remuneration exceeding the notice calculated according to the provisions of the CCNL and for the amount of the PNC exceeding the last year of fixed remuneration.

C) for the remaining staff, in addition to the general criteria indicated under A):

- the amounts agreed in view of or on the occasion of the early termination of the employment relationship are included in the calculation of the incidence of the variable remuneration with respect to the fixed remuneration of the last year of employment or tenure, with the exception of:
- amounts agreed and recognised as part of an agreement between the bank and the staff, wherever reached, for the settlement of an actual or potential dispute defined by multiplying
  - 2 months' annual global remuneration (gross annual remuneration for the last year plus the average of the amounts paid as a monetary incentive component over the last two years) for the number of years of seniority

  in any case within the maximum amount defined by the Shareholders' Meeting.
- With reference to professionals with particularly significant characteristics, such that the termination of the relationship may give rise to risks, the Bank reserves the right to define, on a case-by-case basis, in view of or in connection with the termination of the employment relationship, non-competition agreements providing for the recognition of a consideration commensurate with the duration and extent of the obligation arising from the agreement after the termination of the employment relationship and/or cessation of the office.
- If the fees for non-competition agreements are defined within the limit of one year's fixed remuneration, they are not subject to the limit to the variable/fixed ratio as defined in these provisions.
- If the consideration for non-competition agreements is defined in an aggregate amount exceeding the limit of one year of fixed remuneration, it is considered variable remuneration and its allocation and payment is subject to the verification of the Group's capital and liquidity conditions and contributes to the definition of the limit of variable remuneration with respect to fixed remuneration. In such a case, this limit may exceptionally deviate from the 1:1 ratio in each case up to a maximum of 2:1.

This is without prejudice to the provisions of Circular 285 paragraph 2.2.3 "Derogations" point 1 regarding redundancy incentives.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures shall include an overview of the key risks, their measurement and how these measures affect remuneration

The Bank's incentive system is structured in such a way that the determination of variable remuneration takes into account current and future risks through various mechanisms, all defined in compliance with the risk profile defined by the Risk Appetite Framework.

First of all, variable remuneration for both the "key personnel" and the remaining personnel is only paid if the conditions for access to the system are met ("gate" targets).

To this end, the risk indicators taken into account are the main indicators relating to capitalisation and liquidity, which, fully consistent with the Bank's Risk Appetite Framework, must be at a level above the tolerance threshold defined for each of them.

More specifically, the CET1 and Total Capital Ratio, as regards capitalisation, and the Liquidity Coverage Ratio (LCR) and the internal Structural Liquidity Ratio, as regards liquidity, are considered.

In addition to this, the system adopted by the Bank provides for a "top-down" approach to the definition of the overall Bonus Pool, closely correlated to the level of Rorac with respect to the budget, as a further reinforcement of the alignment between the overall variable remuneration system and income results that take into account the risks assumed, in addition to capital strength and liquidity.

In fact, as regards the determination of the bonuses of the OSR of the Parent Company, excluding the control functions, the incentive system is only activated if a Rorac level of at least 80% of the budgeted Rorac target is achieved and, if this condition is met, the bonus pool for the most relevant personnel is determined according to the Rorac achieved according to a predetermined correlation.

d) The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD.

The remuneration policy defined by the Group for the key personnel provided for a ratio of 1:1 between the fixed and variable components of remuneration for the key personnel not belonging to control functions, while for staff belonging to control functions the limit was set at a ratio of 1/3.

For the "remaining personnel" the remuneration policy sets a limit of the monetary incentive component payable of 40% of the fixed remuneration. The entire variable remuneration must, however, be within the maximum limit of 1:1.

e) Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration.

Disclosures shall include:

- an overview of main performance criteria and metrics for institution, business lines and individuals;

- an overview of how amounts of individual variable remuneration are linked to institution wide and individual performance

- information on the criteria used to determine the balance between the different types of instruments awarded including shares, equivalent ownership interest, options and other instruments;

- information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics.

The remuneration system is closely linked to performance. In particular:

- it is activated first and foremost upon the achievement by the Group of certain consolidated targets ("gate" targets of liquidity, equity and profitability);
- for the "key personnel", excluding control functions, provides for a bonus pool that may vary (both upwards and downwards) depending on the achievement of targets in terms of the ratio of Adjusted Net Result to Absorbed Capital[30] (RORAC), thus closely linking the Group's risk-adjusted results and the bonus paid; the system only activates at a level of RORAC equal to at least 80% of budgeted RORAC
- for the remaining personnel, provides for the identification of a bonus pool calculated as a percentage of pre-tax profit (with a view to self-financing);
- provides for an objectives sheet that balances value creation and risk management objectives and objectives related to plan actions and sustainable value creation for the various stakeholders, with a minimum individual performance threshold to qualify for the bonus of 80%;
- for the key personnel, the system provides for a deferral of 40% of the accrued bonus over 4 years (rising to 60% over 5 years in the case of particularly high variable remuneration for senior management roles); the related payment is subject to equity, liquidity and profitability conditions and linked to share price performance. The balance of variable remuneration between the portion paid in cash and the portion paid in financial instruments is ensured by the correlation provided for by the system between the amounts paid in phantom shares and the performance of the ordinary share, by virtue of an indexing mechanism.

[30] The "absorbed capital" is calculated according to the methodologies and criteria developed in the ICAAP document.

f) Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance. Disclosures shall include:

- an overview of the institution’s policy on deferral, payout in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff;

- information of the institution’ criteria for ex post adjustments (*malus* during deferral and clawback after vesting, if permitted by national law);

- where applicable, shareholding requirements that may be imposed on key personnel.

Once the amount of the bonus has been defined, within the limits and according to the defined targets, and taking into account the total bonus pool accrued, it is paid, in accordance with the provisions of the relevant regulations, according to the following scheme.

T year in which the bonus accrued		t + 1 (upfront)	t + 2	t + 3	t + 4	t + 5	tot
allocation	cash	30%			10%	10%	50%
	Phantom Shares subject to maintenance	30%	10%	10%			50%

Payout	cash	30%			10%	10%	50%
	Phantom Shares actually available		30%	10%	10%		50%

Malus Conditions for deferred quotas	Subject to gate verification FY t+1: -Capital -Liquidity -Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+2: -Capital -Liquidity -Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+3: -Capital -Liquidity -Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+4: -Capital -Liquidity -Consolidated adjusted profit from continuing operations before tax

In the case of particularly high variable remuneration (for the three-year period 2022-2024 equal to EUR 435,000), the following scheme applies for "senior management" roles:

T year in which the bonus accrued		t + 1 (upfront)	t + 2	t + 3	t + 4	t + 5	T + 6	tot
allocation	cash	20%			5%	5%	15%	45%
	Phantom Shares subject to maintenance	20%	15%	10%	10%			55%
Payout	cash	20%			5%	5%	15%	45%
	Phantom Shares actually available		20%	15%	10%	10%		55%
Malus Conditions for deferred quotas			Subject to gate verification FY t+1: -Capital -Liquidity - Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+2: -Capital -Liquidity - Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+3: -Capital -Liquidity - Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+4: -Capital -Liquidity - Consolidated adjusted profit from continuing operations before tax	Subject to gate verification FY t+5: -Capital -Liquidity - Consolidated adjusted profit from continuing operations before tax	

The deferred shares, both cash and in financial instruments (Phantom Shares[31]), are paid provided that the liquidity and capital gates have been opened and that there has been a positive result with reference to the financial statements of the year preceding the year of verification.

Both schemes also provide:

- that the Phantom Shares component is subject to a Retention Period of 1 year commencing, for the upfront portion, from the date of allotment and, for the deferred portion, from the end of the deferral period during which the Phantom Shares are not allocated.
- *malus* and claw back clauses (described below).

The Phantom Shares are a "virtual" financial instrument, which entitles the Beneficiary to the payment of a cash amount corresponding to the countervalue of the share for the number of vested Phantom Shares. For deferred Phantom Shares, the Maintenance Period commences at the time the deferred remuneration is recognised.

The number[32] of Phantom Shares accrued and thus allocated is determined on the basis of the ratio between:

- the portion of the *Award* to be paid in Phantom Shares

[31] Means a unit representing the value of a Share that will be converted into a cash Award according to the price of the Share on a given date, on the terms and conditions set out in this Plan.

[32] The number of Rights allocated will be defined by rounding to the nearest whole number.

- the average Share price established in the four weeks preceding the date of the *Shareholders' Meeting* approving the *Group*'s consolidated results for the year 2022.

The cash value of the Phantom Shares at the end of the *Retention Period* is defined as the simple arithmetic mean of the official prices of the *Bank*'s*Share*, taken in the four weeks preceding the date of the Shareholders' Meeting approving the *Group*'s results for the year preceding the payment (2024 Shareholders' Meeting approving the 2023 financial statements, for the payment of the upfront tranche at the end of the Retention Period; 2025 Shareholders' Meeting approving the 2024 financial statements, for the payment of the first deferred tranche at the end of the Retention Period, and so on).

Phantom Shares do not accrue dividends.

Lastly, the incentive system is subject, as for the variable components of the other most relevant personnel, to *Malus* and Claw back clauses. The bonus may be reduced, up to zero (*malus*), in the event of disciplinary action or evidence of non-compliance for excessive risk-taking activities, non-compliance with legal or statutory provisions or the code of ethics, other standards of conduct, or violation of internal and/or external regulations resulting in a significant loss for the Bank or its customers (as defined by the Board of Directors), including the prohibition to use personal hedging or remuneration insurance strategies or other aspects that may alter or affect risk alignment.

The Bank proceeds through clawback actions, in whole or in part, for variable remuneration already paid and the discontinuation of deferred components in the event of evidence within five years of the variable remuneration accrual or payment of the same, of personnel conduct that caused or contributed to:

- violation of codes of ethics or other standards of conduct, and/or internal or external regulations resulting in a significant loss for the Bank or its customers;
- violations of the obligations imposed pursuant to Article 26 or, when the person is an interested party, Article 53(4) et seq. of the Consolidated Banking Act or of remuneration and incentive obligations;
- violations of the rules of the Consolidated Law on Finance concerning remuneration and incentive obligations;
- fraudulent or grossly negligent conduct to the detriment of the Bank;
- as well as conduct resulting in disciplinary sanctions (ranging from suspension from service to dismissal for just cause or justified subjective reason);
- limited to the Chief Executive Officer/General Manager and to Executives with Strategic Responsibilities, in the event that, following the restatement of the Financial Statements, the satisfaction of the conditions underlying the incentive component (access conditions and/or objectives) is not confirmed.

These provisions are independent of any indemnity or disciplinary profiles and are also activated taking into account the relevant contribution and tax profiles.

g) The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR.

Disclosures shall include:

- information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between different types of instruments awarded, including shares, equivalent ownership interests, share-linked instruments, equivalent non cash-instruments, options and other instruments.

The variable remuneration components are balanced between a part (50%) paid in cash and a part (50%) paid in phantom shares.

The number of Phantom Shares accrued and thus allocated is determined on the basis of the ratio between:

- the portion of the Award to be paid in Phantom Shares

- the average Share price established in the four weeks preceding the date of the Shareholders' Meeting approving the Group's consolidated results for the year 2022.

The cash countervalue of the Phantom Shares at the end of the *Retention Period* is defined as the simple arithmetic mean of the official prices of the *Bank*'s *share*, recorded in the four weeks preceding the date of the Shareholders' Meeting approving the *Group*'s results for the year preceding the payment. As regards the definition of individual objectives, in order to link the bonuses accrued also to the performance and objectives achieved at the level of the company function and individually, each staff member concerned receives an annual objectives sheet including individual qualitative and quantitative objectives.

The objectives sheets are structured into quantitative (value creation and risk management) and qualitative (strategic plan guidelines and initiative implementation) strategic performance areas, in order to balance qualitative and quantitative elements and ensure a medium- to long-term perspective.

h) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management.

See tables below.

i) Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR. - For the purposes of this point, institutions benefiting from such a waiver shall indicate whether it is based on Article 94(3)(a) and/or (b) of the CRD. They shall also indicate to which of the remuneration principles they apply the waiver(s), the number of staff members benefiting from the waiver(s) and their total remuneration, broken down into fixed and variable remuneration.

The remuneration policy defined by the Group for 2022 has provided for two separate materiality thresholds, one of EUR 50,000 and the other of EUR 30,000, distinguished according to the roles concerned, in correspondence which variable remuneration is paid in cash, up front, without deferral.

The exemption in question is based on Article 94 paragraph 3 letter b. The members of the key personnel to whom the rule was applied amounted to 10 for fixed and variable remuneration as shown below:

Derogation for application of materiality threshold	
PPR number for which the derogation applied	10
fixed remuneration	EUR 1,084,323
variable remuneration	EUR 254,289

Quantitative Information[33]

Template EU REM1: Remuneration awarded for the financial year

			a	b	c	d
			MB - supervisory function	MB - management	Other senior	Other identified staff
1	Fixed remuneration	Number of identified staff	14	5	12	6
2		Total fixed remuneration	1,411,632	1,257,431	2,012,650	916,341
3		Of which: cash-based	1,411,632	1,216,272	1,860,933	847,801
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments				
6		(Not applicable in the EU)				
7		Of which: other forms		41,159	151,717	68,540
8		(Not applicable in the EU)				

			a	b	c	d
			MB - supervisory function	MB - management	Other senior	Other identified staff
9	Variable remuneration	Number of identified staff	14	5	12	6
10		Total variable remuneration	5,000	514,530	465,371	316,072
11		Of which: cash-based	5,000	265,768	283,081	248,033
12		Of which: deferred		99,505	72,916	27,515
EU-13a		Of which: shares or equivalent ownership interests				
EU-14a		Of which: deferred				
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments		248,762	182,290	68,039
EU-14b		Of which: deferred		99,505	72,916	27,215
EU-14x		Of which: other instruments				
EU-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	Total remuneration (2 + 10)		1,416,632	1,771,961	2,478,021	1,232,413

[33] The tables in this section are drawn up in euro units.

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Template EU REM2: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Information not applicable.

Template EU REM3: Deferred remuneration

		a	b	c	d	e	f	EU-g	EU-h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB - supervisory function	15,000	15,000				1,212	16,212	
2	Cash-based								
3	Shares or equivalent ownership								
4	Share-linked instruments or	15,000	15,000				1,212	16,212	
5	Other instruments								
6	Other forms								
7	MB - management function	330,781	28,592	302,189			2,766	31,358	
8	Cash-based								
9	Shares or equivalent ownership								
10	Share-linked instruments or	330,781	28,592	302,189			2,766	31,358	
11	Other instruments								
12	Other forms								
13	Other senior management	216,741	23,985	192,756				23,985	
14	Cash-based	55,531	23,985	31,546				23,985	
15	Shares or equivalent ownership								
16	Share-linked instruments or	161,210		161,210					
17	Other instruments								
18	Other forms								
19	Other identified staff	73,402		73,402					
20	Cash-based								
21	Shares or equivalent ownership								
22	Share-linked instruments or	73,402		73,402					
23	Other instruments								
24	Other forms								
25	Total amount 31.12.2022	635,924	67,577	568,347			3,978	71,555	

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Template EU REM4: Remuneration of 1 million EUR or more per year

		a
	Euro	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	1
2	1 500 000 to below 2 000 000	
3	2 000 000 to below 2 500 000	
4	2 500 000 to below 3 000 000	
5	3 000 000 to below 3 500 000	
6	3 500 000 to below 4 000 000	
7	4 000 000 to below 4 500 000	
8	4 500 000 to below 5 000 000	
9	5 000 000 to below 6 000 000	
10	6 000 000 to below 7 000 000	
11	7 000 000 to below 8 000 000	
x	To be extended as appropriate, if further payment bands are needed.	

Template EU REM5: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB - supervisory	MB -	Total MB	Investment	Retail banking	Asset management	Corporate	Independent	All other	Total
1	Total number of identified staff										37
2	Of which: members of the MB	14	5	19							
3	Of which: other senior management					3	1	4	4		
4	Of which: other identified staff					6					
5	Total remuneration of identified staff	1,416,632	1,771,961	3,188,593		1,917,899	243,844	983,902	564,789		
6	Of which: variable remuneration	5,000	514,530	519,530		504,607	3,311	197,331	76,194		
7	Of which: fixed remuneration	1,411,632	1,257,431	2,669,063		1,413,292	240,533	786,571	488,595		

*In the variable remuneration, the figure available to date for the company bonus pursuant to Article 48 CCNL (paid in the year 2022 pertaining to the year 2021) was used

17. Disclosure on encumbered and unencumbered assets[34]

Table EU AE4: Accompanying narrative information

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

- secured financing transactions;
- access to central bank instruments;
- guarantee contracts;
- collateral provided in clearing systems.

The types of encumbered assets consist of debt securities and receivables on the balance sheet. Debt securities, mainly Italian government bonds, are used as collateral to raise funds in the short and medium term through access to central bank instruments.

The receivables, which represent approximately 69.7% of the pledged assets, are pledged as collateral for the following operations:

- covered bond issues on the market;
- access to European Central Bank instruments.

In particular, against the TLTRO III refinancing operations for EUR 3.05 billion with the European Central Bank, the collateral provided consisted of A.Ba.Co. loans and debt securities.

Template EU AE1 - Encumbered and unencumbered assets

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	010	030	040	050	060	080	090	100
Assets of the reporting institution	**6,789,414**	**2,078,635**			**11,401,427**	**2,677,124**		
Equity instruments	-	-	-	-	109,464	6,015	109,464	6,015
Debt securities	2,142,929	2,078,635	2,086,829	2,025,233	1,746,333	904,710	1,694,081	880,293
of which covered bonds	-	-	-	-	6,008	-	5,850	-
of which securitisations	117,029	-	111,461	-	169,626	-	163,467	-
of which issued by general governments	2,078,635	2,078,635	2,025,233	2,025,233	905,282	904,710	880,865	880,293
of which issued by financial corporations	121,553	-	116,053	-	721,521	-	682,883	-
of which issued by non-financial corporations	-	-	-	-	64,280	-	58,929	-
Other assets	4,730,366	-			9,747,010	1,971,263		

[34] See Art. 18 of Implementing Regulation (EU) 2021/637

Template EU AE2: Collateral received and own debt securities issued

		Fair value of encumbered collateral received or own debt		Unencumbered	
				Fair value of collateral received	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the disclosing institution	-	-	-	-
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	*of which covered bonds*	-	-	-	-
180	*of which securitisations*	-	-	-	-
190	*of which issued by general governments*	-	-	-	-
200	*of which issued by financial corporations*	-	-	-	-
210	*of which issued by non-financial corporations*	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	Own debt securities issued other than own covered bonds or securitisations	-	-	1,251	-
241	Own covered bonds and securitisation issued and not yet pledged			-	-
250	TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED 31.12.2022	6,789,414	2,078,635		
	TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED 30.06.2022	5,956,853	-		

Template EU AE3: Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities as at 31/12/2022	5,522,172	6,789,414
	Carrying amount of selected financial liabilities as at 31/12/2021	4,888,340	5,956,853

18. Moratoria granted and new disbursements subject to public guarantee schemes in the Covid-19 context (EBA/GL/2020/07)

The social and economic emergency brought about by Covid-19 resulted in the need for proactive credit risk management. To this end, a number of initiatives were undertaken to provide support to customers and monitor portfolio risk.

Understanding the significant economic impact of the spread of the virus on people and businesses, in keeping with our values as a bank in the territory, close to families and businesses, in the 2020 financial year, the Group promptly took steps to support customers, including: extension of the 2019 Credit Agreement - ABI in favour of businesses, actions in support of business customers and consumers such as suspension of the capital portion of mortgages for 6 or 12 months, free from renegotiation fees where applicable, no change in the rates and charges applied, non-compulsory extension of explosion-fire insurance coverage for mortgage and land loans. The Group then adhered to and promoted the support measures provided for in the "*Cura Italia*" (Heal Italy) Decree Law of 17 March 2020 and the "Liquidity" Decree Law of 8 April 2020, and continued this action during the current financial year.

All credit operations carried out by the Bank as a result of the health emergency were appropriately codified in order to be able to govern and monitor management actions.

Overall, up to 31 December 2021, the Banco Desio Group has granted:

a) loans of up to EUR 30,000 100% secured by the SME Guarantee Fund (Art. 13 of the Liquidity Decree) amounting to 15,000 accounts for about EUR 0.3 billion,

b) loans amounting to over EUR 30,000 secured up to 90% by the Guarantee Fund for SMEs (Art. 13 of the Liquidity Decree) amounting to about 8,000 accounts for a total of about EUR 2.1 billion,

c) EUR 156 million in Sace-guaranteed loans for corporate enterprises.

Since the start of the pandemic, the Banco Desio Group has also resolved pursuant to law, ABI/Assofin and non-decree and non-membership moratoria for more than EUR 2.9 billion (about 23 thousand accounts); as at 31 December 2021, moratoria of about EUR 0.6 billion were still active, mainly attributable to moratoria pursuant to law (Art. 56 of the Liquidity Decree), the resumption of which is largely expected in the early months of 2022.

Concession/suspension transactions carried out for legislative "COVID" purposes, requested by customers by 30 September 20, had not been classified as forborne (according to supervisory guidance). Legislative suspensions received at a later date were evaluated analytically in order to identify elements of forbearance. In particular, since the last quarter of 2020, a series of audits have been initiated, in an analytical manner on the largest counterparties, in order to verify the existence of elements that could qualify them as forborne or, in the case of significant anomalies, UTP. These audits, which were also conducted in the last quarter of 2021 and reported to the Board of Directors, produced limited effects on the classification as impaired.

For only those positions towards companies with a higher pre-existing riskiness at the outbreak of the pandemic, in the case of a moratorium decided by the Bank, specific assessments are carried out to verify whether or not to consider renegotiation as a forbearance measure, with a consequent move to stage 2. In order to assess the assumption for the evolution of the macroeconomic scenario, the sector impact estimates and the tools to cope with both the crisis phase and the new scenario at the end of the emergency were examined in depth. The activity allowed the clustering of the portfolio on the basis of riskiness - by rating, sector, amount - in order to identify strategies to be adopted both in terms of support and risk mitigation.

Considering the fact that at the reporting date the latent riskiness of a cluster of exposures may not be fully reflected in the IFRS9 expected loss measurement models both in terms of staging allocation and application of the expected loss due to the particular situation that government support measures continue to determine on the liquidity of companies and the ordinary tools for monitoring loans (past due amounts, financial tension, etc.), the Group deemed it appropriate to continue to adopt a prudent approach, consistent with what requested by Esma in its document "European common enforcement priorities for

2021 annual financial reports" in assessing the longer-term impacts related to Covid-19, defining post-model adjustments (management overlay) that take into account the transition to stage 2:

- moratoria on loans still outstanding as at 30 September 2021, mainly consisting of legislative moratoria pursuant to Article 56 of the Liquidity Decree to be further extended during the year,
- updating the Bank's sector attractiveness analyses based on Prometeia sector studies, focusing on ratings equal to or worse than the median class (rating 5).

Within the stage 2 positions, specific higher-risk clusters were identified for corporate loans to which increasing minimum cover was applied:

- Cluster 1: active moratoria (outstanding as at 30 September 2021) with rating classes 1-3 and moratoria expired before 30 September 2021 towards low attractiveness sectors;
- Cluster 2: active moratoria with rating class 1-3 towards low attractiveness sectors;
- Cluster 3: active moratoria with rating >= 4 and other mortgages in low attractiveness sectors rating >=7;
- Cluster 4: active moratoria with rating >= 4 towards low attractiveness sectors.

Moratoria outstanding on or after 30 September 2021 on mortgages to private customers were also considered a risk cluster to which a minimum level of coverage could be applied to reflect a higher underlying risk.

For the definition of the minimum coverage to be applied on the various clusters identified, in a range between 3% and 13%, the average coverage levels expressed by the model on different risk bands were taken as a reference.

The following disclosures are made in accordance with the EBA/GL/2020/07 templates with reference to moratoria granted and new disbursements subject to public guarantee schemes in the Covid-19 context as at the reference date of 31 December 2021. The statutory moratoria shown in Table 2 are principal and interest moratoria, whereas the other moratoria granted by the bank (including the ABI and Assofin moratoria) are principal-only moratoria.

The disbursements in Table 3 consist of liquidity disbursements of a maximum term of 10 years guaranteed by MCC and Sace, for an amount between 80% and 100% of the amount disbursed, depending on the characteristics of the borrower and the amount requested. The increase in guaranteed disbursements compared to 31 December 2020, amounting to approximately EUR 0.6 billion, provides evidence of the continued derisking action implemented on the portfolio last year and the support to the economy provided by the Group through the disbursement of new liquidity to companies.

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Template 1. Information on loans and advances subject to legislative and non-legislative moratoria

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount							Accumulated negative fair value changes due to credit risk							Gross carrying amount
			Performing exposures			Impaired				Performing exposures			Impaired			
				Of which: forborne	Of which: instruments with a significant increase in credit risk after initial recognition but which are not impaired (Phase 2)		Of which: forborne	Of which: unlikely to pay that are not past due or have been past due for no more than 90 days			Of which: forborne	Of which: instruments with a significant increase in credit risk after initial recognition but which are not impaired (Phase 2)		Of which: forborne	Of which: unlikely to pay that are not past due or have been past due for no more than 90 days	Inflows to non-performing exposures
1	Loans and advances subject to moratorium	**8,652**	7,518	4,815	5,197	1,134	991	1,030	**(901)**	(566)	(530)	(561)	(335)	(297)	(272)	132
2	of which: to households	**1,456**	1,163	362	641	293	150	248	**(123)**	(47)	(29)	(47)	(76)	(39)	(48)	114
3	of which: secured by residential real estate as collateral	**1,243**	1,007	276	485	236	139	236	**(76)**	(34)	(23)	(33)	(42)	(32)	(42)	114
4	of which: non-financial corporations	**7,196**	6,356	4,454	4,556	840	840	783	**(778)**	(519)	(501)	(514)	(259)	(259)	(224)	18
5	of which: to small and medium-sized enterprises	**7,196**	6,356	4,454	4,556	840	840	783	**(778)**	(519)	(501)	(514)	(259)	(259)	(224)	18
6	of which: secured by non-residential real estate as collateral	**6,532**	5,975	4,178	4,178	557	557	557	**(581)**	(470)	(466)	(466)	(111)	(111)	(111)	-

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Template 2. Breakdown of loans of advances subject to legislative and non-legislative moratoria by residual duration of moratoria

		a	b	c	d	e	f	g	h	i
		Number of debtors	Gross carrying amount							
				Of which: legislative moratoriums	Of which: overdue	Residual duration of moratoriums				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which a moratorium has been offered	14,743	1,582,059	-	-	-	-	-	-	-
2	Loans and advances subject to moratorium (granted)	14,537	1,582,059	1,023,892	1,573,407	7,943	284	163	25	237
3	of which: to households	-	616,292	314,341	614,836	1,015	284	120	14	23
4	of which: secured by residential real estate as collateral	-	500,276	246,484	499,034	851	284	107	-	-
5	of which: non-financial corporations	-	957,278	704,848	950,082	6,928	-	43	11	213
6	of which: to small and medium-sized enterprises	-	840,526	642,348	833,330	6,928	-	43	11	213
7	of which: secured by non-residential real estate as collateral	-	509,483	384,836	502,951	6,532	-	-	-	-

Template 3. Information on new loans and advances subject to newly applied public guarantee schemes introduced in response to the Covid-19 crisis

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	New loans and advances subject to public guarantee schemes	2,150,800	11,927	1,841,931	22,389
2	of which: to households	154,783			-
3	of which: secured by residential real estate as collateral	-			-
4	of which: non-financial corporations	1,989,156	11,803	1,692,650	21,365
5	of which: to small and medium-sized enterprises	1,649,711			-
6	of which: secured by non-residential real estate as collateral	-			-

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19. Glossary

ABS (Asset Backed Securities)	Debt securities, generally issued by a Special Purpose Vehicle (SPV), which are backed by portfolios of assets of various types (mortgages, consumer loans, receivables from credit card transactions, etc.) and which are intended solely for the satisfaction of the rights embedded in the financial instruments themselves. Repayment of principal and payment of interest are conditional on the performance of the securitised assets and any additional collateral supporting the transaction. ABS securities are divided into different tranches (senior, mezzanine, junior) according to their priority in the repayment of principal and interest.
AIRB (Advanced Internal Rating Based)	Method involving the estimation by the financial intermediary of all major risk parameters (in particular PD, LGD, EAD, defined below) used in the risk-weight formulae for the calculation of the regulatory minimum requirement for credit risk.
ALM (Asset & Liability Management)	Integrated asset-liability management process (cash and unsecured exposures, including derivative positions) designed to ensure the management of financial risk exposure consistent with risk objectives and limits, as well as the optimisation of the intermediary's risk-return profile.
AQR (Asset Quality Review)	Review of asset quality. It is a general control promoted by the European Central Bank, whose objective is to verify the soundness of the major European banking institutions, increase the transparency of the balance sheets of significant banks, stimulate the necessary corrective action on balance sheets and restore investor confidence by following harmonised European criteria and methodologies.
AT1 (Additional Tier 1)	Additional Tier 1 Capital is a lower quality component of regulatory capital than Common Equity Tier 1 Capital and contributes with the latter to the calculation of Tier *1* Capital and the corresponding ratio. It is represented in particular by the "new" hybrid securities (and related surcharges), which are characterised by a more pronounced loss-absorbing capacity - as much in a going concern situation as in a liquidation situation - compared to traditional innovative instruments.
BIA (Basic Indicator Approach)	Method for determining the capital requirement for operational risk, based on a single regulatory ratio (15%) applied to net banking income supplemented by other operating income and adjusted for certain components (realised gains and losses on the sale of securities not included in the trading book, income from extraordinary or irregular items and income from insurance).
Business Continuity	Operational continuity. An approach that, starting from the identification of critical business processes, defines for each of them organisational safeguards and business continuity measures commensurate with their risk levels. The concrete measures to be taken, aimed at reducing the damage resulting from accidents or catastrophes that directly or indirectly affect an intermediary to a level deemed acceptable, take into account the standards and best practices defined at international level and/or defined within the framework of professional bodies.
Cash Flow Hedge	Hedging of exposure to the risk of cash flow variability, with the objective of stabilising the cash flows of the hedged instrument with the flows of the hedging instrument. The items that can be hedged are future cash flows from different types of transactions, such as variable-rate financial receivables and variable-rate loans.
CET1 (Common Equity Tier 1)	Common Equity Tier 1 capital, composed of paid-in capital, capital instruments that meet the requirements of the regulations (Articles 28 and 29 of the CRR), related share premium accounts and revenue reserves, net of treasury shares in portfolio, goodwill, other intangible assets and the excess of total value adjustments over expected losses.
CFRP (Contingency Funding Recovery Plan)	A plan that allows the identification of intervention strategies in the event of liquidity tension, determining the external or internal nature of tension situations and defining the specific competences and responsibilities of corporate functions in emergency situations. It is approved by the Parent Company's Board of Directors, reviewed periodically and applied to the legal entities within the scope of liquidity risk monitoring.
Organisational Change Management	Initiatives to evolve the organisational structure, tools and business processes to ensure compliance with prudential supervisory requirements for banks wishing to adopt the advanced A-IRB internal models.
Collateral	Asset pledged as collateral in a financing transaction.
Counterbalancy Capacity	Amount of unencumbered, high quality liquid assets that can be readily converted into cash to meet liquidity needs.
Coverage Ratio	Proportion of the fund associated with the individual balance sheet asset in relation to the nominal value of the claim.

CRD IV (Capital Requirements Directives)	Directive 2014/36/EU of the European Parliament and of the Council of 26 June 2013 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
CRR (Capital Requirements Regulation)	Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.
CUSIP (Committee on Uniform Securities Identification Procedures)	Nine-character alphanumeric code identifying the type of security and its issuer.
Data Quality (DQ) / DQ process	Quality of data used in business processes, defined in terms of accuracy (absence of systematic bias induced by input data or collection and integration processes), completeness (use of all relevant information) and relevance (usefulness for defined purposes). The data quality process is realised through the use of procedures for collecting, storing and processing data, which must guarantee compliance with high quality standards. The functions involved in the collection of data and production of information are identified, with their respective roles and responsibilities. The planned controls and measures for dealing with missing or unsatisfactory data are defined.
DBPOA (Database of Corporate Operational Losses)	Operational Losses database prepared and updated at company level, where information on detected operational risk events is recorded.
Derecognition	Derecognition of a previously recognised financial asset from the balance sheet (IAS 39).
DIPO (Italian Database of Operational Losses)	Operational Loss database prepared and updated at the consortium level on the basis of periodic reporting of operational loss events by Italian banks participating in the system.
Drive-by - Appraisals	Appraisals aimed at assessing the fairness of the commercial value of real estate. These involve an external inspection of the property and are defined on the basis of data provided by the developer from documents such as preliminary deeds of sale and/or previous purchase deeds and/or original survey.
Duration (Financial Duration)	Financial duration of a bond, expressed in years and defined as the weighted average - for the relevant amounts - of the maturities of the interest and principal payments associated with it. It is an indicator of the interest rate risk to which the security is subject: higher values correspond to a greater exposure of the security to changes in market rates. The indicator decreases as the maturity of the instrument approaches, while it increases if the frequency of coupon payments is reduced. The duration of a portfolio is equal to the weighted average of the durations of the individual securities comprising it.
Duration Gap	Methodology for measuring interest rate risk, based on the calculation of the duration of assets and liabilities, used to quantify the sensitivity of the economic (market) value of assets and liabilities to changes in market interest rates.
EAD (Exposure at Default)	Expected credit exposure at the time of default associated with a generic position, calculated as the sum of the balance sheet drawdown and any available margin weighted by a Credit Conversion Factor (CCF). The latter is obtained from the ratio of the undrawn portion of the credit line that is estimated to be utilised in the event of default to the currently undrawn portion. This factor therefore represents the probability that the unused component is "drawn". This parameter is used to estimate expected loss and RWA in the AIRB approach.
ECAI (External Credit Assessment Institutions)	An entity recognised by the Supervisory Authority that performs credit assessments and issues ratings that can be used by financial intermediaries to calculate the regulatory minimum requirement for credit risk using the standardised methodology.
ECL (Expected Credit Loss)	The amount of loss the bank estimates it will incur on an average financial asset. Expected loss is calculated as required by IFRS9 based on the definition of the staging criteria, i.e. by calculating the 12-month Expected Loss for positions classified within stage 1 and the Expected Loss Lifetime for financial assets classified within stage 2 and stage 3. For stage 1 exposures, the ECL is equal to the product of the one-year class PD (or pool), LGD and EAD risk parameters, while for stage 2 exposures, the PD, LGD and EAD parameters are calculated over the expected life of a financial instrument.
Forborne exposures	Credit exposures for which changes in contractual terms or full or partial refinancing are granted because of the borrower's financial difficulties, which could result in a loss to the lender. In order for the presumption of forbearance to be triggered, positions must have been past due for more than one month at least once in the three months preceding the contractual change, lowering the alarm threshold from the 90 days stipulated in the definition of default.
FVTPL (Fair Value Through Profit or Loss)	Financial instrument (financial asset or liability) measured at fair value with changes recognised in the income statement. The cases envisaged by IFRS9 "Financial Instruments" for the FVTPL accounting classification are: i) held for trading purposes, ii) designated at fair value through profit or loss upon initial

	recognition, and iii) mandatory measurement at fair value for instruments with cash flow characteristics that are inconsistent with other accounting classifications in the standard.
Going Concern	Context of normal course of business.
G-SII (Global Systemically Important Institutions)	Globally systemic entities.
IAS/IFRS	International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), a body in which the accounting professions of the major countries as well as the European Union, IOSCO (*International Organisation of Securities Commissions*) and the Basel Committee participate as observers. This body, which took over the legacy of the *International Accounting Standards Committee* (IASC), aims to promote the harmonisation of rules for the preparation of company financial statements. With the transformation of the IASC into the IASB, the decision was taken, among other things, to name the new accounting standards "*International Financial Reporting Standards*" (IFRS).
ICAAP (Internal Capital Adequacy Assessment Process)	"Pillar II" of the Basel prudential supervisory regulations that require banks to have processes and tools in place to determine the level of internal capital adequate to address material risks, including risks other than those addressed by the overall capital requirement ("Pillar I"), as part of a current and prospective exposure assessment that takes into account strategies and changes in the reference environment, including under stress conditions.
ICT (Information Communication Technology, Area)	Organisational unit of the parent company Banco Desio, classified as an Area responsible for, *inter alia*: (i) managing the arrangements associated with the planning and control of the portfolio of IT projects related to the evolution of architecture and technological innovation, (ii) overseeing the technological infrastructure by implementing the development and innovation of resources related to the operation of IT and telecommunications systems in support of business processes, (iii) ensuring the implementation of the appropriate mechanisms for liaison with the business lines, particularly with regard to the identification and planning of IT initiatives.
Impairment - Financial Assets IFRS9	Financial assets that are not measured at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" are subject to an impairment process, i.e. the determination of the recoverable amount based on a calculation model based on expected losses, determined on the basis of past events, current conditions and reasonable and "supportable" future forecasts (current model based on incurred but unrecorded losses). For the purposes of determining impairment, IFRS 9 introduced the segmentation of the loan portfolio into three stages with increasing levels of credit risk (based on the evolution over time) stage 1 for exposures with performance in line with expectations; stage 2 for exposures with performance below expectations or that have experienced a significant increase in credit risk with respect to the time at which they originated (i.e., were purchased); stage 3 for non-performing exposures (exposures with payment irregularities that have become long-lasting, falling into the category of Non-Performing Exposures or NPLs). Forward-looking components, i.e. expected changes in the macroeconomic scenario, are included in the impairment calculation model. The principle provides for an expected loss calculation horizon of one year (stage 1) or lifetime (stages 2 and 3).
Impairment - Assets outside the scope of IFRS 9	An impairment situation is identified when the balance sheet value of an asset is higher than its estimated recoverable amount, i.e. the amount that can be obtained by selling or using that asset. For this purpose, an impairment test is periodically conducted, which consists of estimating the recoverable amount (i.e. the higher of its fair value less costs to sell and its value in use) of an asset or group of assets. Intangible assets with an indefinite useful life, goodwill acquired in a business combination and, in general, any asset if there is an indication that it may be impaired must be tested for impairment annually.
Unlikely to pay	Credit exposures, other than non-performing loans, for which the bank considers it unlikely that, without recourse to actions such as the enforcement of collateral, the borrower will meet its credit obligations in full (in principal and/or interest).
ISIN (International Securities Identification Number)	International Securities Identification Code.
ITS EBA (International Technical Standards)	Document published by the EBA containing implementation standards on supervisory reporting with regard to forbearance measures and non-performing exposures.
Key-Risk Indicators	Risk indicators useful for monitoring and risk assessment.
LCR (Liquidity Coverage Requirement)	Regulatory liquidity indicator. It measures the short-term (30-day) liquidity position and is calculated as the ratio of the stock of *High Quality Liquidity Assets* (HQLA) (e.g. government securities) to the net cash flow *(*cash out- cash in) over the 30-day period, using stress assumptions.
Leverage Ratio	Indicator given by the ratio of Tier 1 to Total Assets, introduced by the Basel regulations with the aim of limiting the increase in leverage in the banking sector, by complementing risk-based requirements with a different metric based on balance sheet aggregates.

LGD (Loss Given Default)	Default loss rate determined as the ratio of the loss incurred on an exposure due to the default of a counterparty to the amount outstanding at the time of default.
LLP (Loan Loss Provision)	Impairment of a loan due to the deterioration of the counterparty's creditworthiness, resulting in an impairment loss recognised as an expense in the income statement and as an increase in the allowance for loan losses. Performing loans are assessed collectively by dividing them into homogeneous risk classes; the relative "collective" impairment is determined by multiplying the three risk parameters PD, LGD and EAD. Non-performing loans, on the other hand, are subject to an analytical assessment, which takes into consideration the presumed possibility of recovery, the expected timing of collection, and outstanding guarantees. The impairment provision associated with the individual position is determined as the difference between the nominal value of the loan and the estimated discounted future recovery flows. In the event that, with the passage of time, the prospects of recovery are revised upwards, or simply brought forward in time, the associated provision for impairment is passed through the income statement as revenue, and is called a write-back.
Loss Data Collection	Structured process for collecting operational losses manifested within the Bank.
LTV (Loan to Value)	Ratio of the amount of the credit to the value of the collateral.
Maturity Gap	Methodology used to assess the exposure of the intermediary's profitability to changes in market interest rates, applied to assets and liabilities sensitive to changes in interest rates and based on the measurement and analysis of the relative deltas or mismatches by maturity.
Rating model	Procedure for classifying each counterparty into risk classes with homogeneous and increasing probabilities of default.
NPLs (Non-Performing Loans)	Receivables for which there is objective evidence of impairment, measured by the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. This category includes loans classified as past due (past due/defaulted), unlikely to pay and non-performing loans.
NSFR	liquidity indicator that measures the availability of stable funding; banks are required to maintain a stable or maturing amount of funding beyond 12 months to finance their activities over the long term.
UCITS	Undertakings for Collective Investment in Savings.
Security Financing Transactions (SFT)	Repurchase and reverse repurchase agreements on securities or commodities, securities or commodities lending or borrowing transactions and margin lending.
ORM (Operational Risk Management)	Operational Risk Management Model governing the roles and responsibilities of the functions involved in risk management. It also lays down specific monitoring limits per loss event and on the total amount of gross operational losses reported per year.
O-SII (Other Systemically Important Institutions)	Systemically important entities other than those operating globally (G-SII).
OTC (Over the Counter)	Unregulated securities market where securities are placed, traded or redeemed. The operation of this market, the securities and operators admitted are not subject to the specific regulation and authorisation of the Regulatory Authorities for Regulated Markets and are not registered in the appropriate register. Bargaining arrangements are not standardised and "atypical" contracts are possible. In Italy, OTC markets take the form of Systems of Organised Trading (SSO).
Outsourcer	A supplier of goods or services from outside the Group. Outsourcing contracts provide for appropriate minimum service levels and the right of access to the outsourcer's systems by the supervisory authority.
Rating Override (Manual Rating Intervention)	Possible manual correction of the automatic judgement obtained from a statistical rating model, based on an expert evaluation.
Past Due (Expired or Overdue Exposures)	In accordance with the new definition of default applicable as of 1 January 2021, this group includes all exposures to borrowers (other than those reported as non-performing or unlikely to pay) that, at the reporting date, have claims that are past due or overdue by more than 90 days, with an absolute materiality threshold of EUR 100 for retail exposures and EUR 500 for non-retail exposures and a relative materiality threshold of 1%. Individual exposures past due and/or in arrears must be at Group level.
PD (Probability of Default)	Probability of a counterparty going into default within a one-year time horizon.
Probation Period	Period of time, lasting two years, after which the position with a performing administrative status and previously classified as a forbearance (exposure subject to a concession) may exit the forbearance status.
Product Approval	The Banco Desio Group's operational and decision-making process for defining and approving new products/services and entering new markets, which identifies the operational phases, roles and responsibilities of the corporate bodies and functions involved in various ways.

RAF (Risk Appetite Framework)	A framework that establishes - consistently with the maximum risk that can be taken, the business model and the strategic plan - the risk appetite, tolerance thresholds, risk limits, risk governance policies and the reference processes needed to define and implement them.
Risk Appetite (risk target or risk appetite)	Level of risk (overall and by type) that the bank intends to assume in pursuit of its strategic objectives.
Risk Capacity (Maximum Risk Assumption)	Maximum level of risk that a bank is technically able to take on without breaching regulatory requirements or other constraints imposed by shareholders or the supervisory authority.
Risk Limits	Structuring of risk objectives into defined operational limits, in line with the principle of proportionality, by type of risk, business units and/or lines, product lines and customer types.
Risk Profile (Actual Risk)	Risk actually measured at a given point in time.
Risk Self-Assessment	Structured process for assessing potential operational risks aimed at having an overview of risk events in terms of potential and worst-case impact.
Risk Tolerance (Tolerance Threshold)	Maximum deviation from risk appetite allowed. The tolerance threshold is set so as to ensure that the bank has sufficient margins in all cases to operate, even under *stress* conditions, within the maximum risk that can be assumed.
Risk Triggers	Internal or external risk indicators used to detect anomalies and aimed at classifying performing exposures into positions under control, subject to specific monitoring activities.
RWA (Risk Weighted Assets)	Risk-weighted assets. These are on-balance-sheet and off-balance-sheet assets (derivatives and guarantees) that are classified and weighted according to fixed ratios reflecting the different riskiness of the counterparty and the transaction (including in relation to the presence of guarantees), in accordance with prudential supervisory regulations.
Sensitivity Analysis	A method of analysis that quantifies the effects induced on the value of cash flows related to funding or lending operations by changes in input parameters (risk factors).
SPV (Special Purpose Vehicle)	A corporate vehicle set up to pursue specific objectives, mainly to isolate financial risks. The assets consist of a portfolio, the proceeds of which are used to service the bonds issued (liabilities). Typically, vehicles are used to manage asset securitisation transactions.
SREP (Supervisory Review Evaluation Process)	Prudential review and assessment process put in place by the Supervisory Authority consisting of three main elements: a Risk Assessment System (RAS), which assesses the risk levels and control activities of credit institutions, a comprehensive review of the ICAAP and ILAAP processes, and a methodology for quantifying capital and liquidity in light of the results of the risk assessment.
T.U.F.	Legislative Decree No. 58/1998 (TUF) of 24 February 1998, Consolidated Law on Financial Intermediation, pursuant to Articles 8 and 21 of Law No. 52 of 6 February 1996.
T1 (Tier 1)	*Tier 1 capital*, represented by the sum of CET1 and AT1.
T2 (Tier 2)	*Tier 2 capital*. A capital measure that primarily includes eligible subordinated liabilities and any excess of value adjustments over expected losses for risk-weighted exposures (for banks authorised to use the AIRB approach).
TC (Total Capital)	Total Own Funds. Overall measure of Group equity given by the sum of the following components: *Common Equity Tier 1 (CET1*), *Additional Tier 1 (AT1*) and *Tier 2 (T2*).
TUB (Consolidated Law on Banking and Credit)	Consolidated Law on Banking and Credit (TUB), enacted by Legislative Decree No 385 of 1 September 1993 and in force since 1 January 1994.
Unlikely to Pay	Exposures for which it is considered unlikely that, without recourse to actions such as the enforcement of collateral, the obligor will meet its credit obligations in full.
VAR (Value At Risk)	A risk measure expressing the maximum potential loss that can characterise a portfolio of financial instruments, estimated using the Monte Carlo simulation technique where, given the appropriate assumptions and correlations, by calculating a series of possible revaluations, the value of the portfolio is estimated and, given the vector of expected portfolio returns, the desired percentile of the distribution is determined. The model uses a 95% confidence interval with a time period of 1 day.
What-if - Analysis	Technique used to determine how the projection of *performance* is affected by variations in the assumptions on which these projections are based, judging the likelihood and consequences of the studies performed before they happen. Through the analysis of historical data, it is possible to build predictive systems capable of estimating future results, thus enabling the formulation of certain forecast scenarios with the aim of assessing the behaviour of a real system.

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The Financial Reporting Manager

The Financial Reporting Manager, Mauro Walter Colombo, declares, pursuant to paragraph 2 of article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document “Pillar 3 of Basel III as at 31 December 2022” corresponds to the documented results, books and accounting records.

The Financial Reporting Manager

Mauro Walter Colombo

Attestation on policies and disclosure requirements pursuant to Part Eight, Art. 431 para. 3 of EU Regulation 575/2013 of 26 June 2013 as amended and supplemented[35]

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, taking into account the provisions of Article 431 of EU Regulation 575/2013 ("CRR") and subsequent amendments and additions:

- the adequacy of the document “Pillar 3 of Basel III - Disclosures to the public as at 31 December 2022" with respect to the requirements of "Part Eight - Disclosures by institutions" of the "CRR", and
- the application of administrative procedures in the preparation of public disclosures in accordance with formal policy and internal processes, systems and controls.

The CEO	The Financial Reporting Manager
Alessandro Decio	*Mauro Walter Colombo*

Desio, 23 March 2023

[35] It should be noted in this regard that, to date, there is no defined attestation standard. In view of the fact that financial information and disclosures make up the bulk of the information provided, a joint attestation by the Chief Executive Officer and the Financial Reporting Manager was opted for.