BASEL III PILLAR 3

PUBLIC DISCLOSURES AT 30 JUNE 2021

BANCO DI DESIO E DELLA BRIANZA S.p.A.
Head office Via Rovagnati 1 – 20832 Desio (MB)
Tax code 01181770155
Registered with the Metropolitan Chamber of Commerce
of Milan, Monza and Brianza and Lodi
Share capital Euro 70,692,590.28 fully paid
Member of the Interbank Deposit Protection
and the National Guarantee Fund
Bank Register at ABI Code no. 3440/5
Parent Company of the Banco di Desio e della Brianza Banking Group
Register of Banking Groups no. 3440/5

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Introduction

On 1 January 2014, the harmonised rules for banks and investment firms became effective, as contained in Regulation (EU) 575/2013 (Capital Requirements Regulation, hereinafter “CRR” or the “Regulation”) and in Directive 2013/36/EU (Capital Requirements Directive, hereinafter “CRD IV” or the “Directive”) of 26 June 2013 that transpose into the European Union's regulatory framework the measures adopted by the Basel Committee for Banking Supervision (Basel 3 framework).

In this regard, the Third Pillar legislation includes an obligation to publish information concerning capital adequacy, exposure to risks and the general characteristics of the systems designed for the identification, measurement and management of such risks. In particular, Public Disclosures are regulated by Regulation EU 575/2013 (CRR), Part Eight and Part Ten, Title I, Chapter 3 and by the regulatory technical or implementing standards issued by the European Commission to regulate.

EU Regulation 876/2019 ("CRR II"), in force since 28 June 2021, amended EU Regulation 575/2013, updating the content of the disclosure to the public (articles 431 et seq.) together with the EBA 2020/04 guidelines governing uniformly the table contents required by each article of the "CRR II" (replacing and integrating various guidelines previously published on individual topics).

As a result of the changes, the Bank is required for the first time to provide **on a half-yearly basis** simplified disclosure (only the content of the so-called "key metrics" required by art. 447), given that it does not qualify either as a large institution or as a small, non-complex institution pursuant to art. 433. However, complete information still has to be provided on an annual basis.

In addition to changing the frequency and integrating the quantitative information to be prepared for the annual disclosure, the main points of interest are as follows:

- art. 431 envisages, as in the past, that a formal policy must be adopted to comply with the requirements, but with three clarifications:
  a) the Board of Directors, which is already responsible for supervising the bank's public disclosures and communications, also has to prepare and maintain processes, systems and internal controls aimed at verifying that the bank's disclosure is adequate and compliant with the requirements laid down in the CRR;
  b) the information to be published is subject to the same level of internal verification applicable to the report on operations included in the Bank's financial report;
  c) a member of the board or of senior management has to attest in writing that the Bank has made the required disclosure in accordance with the formal policy and with its processes, systems and internal controls.
- art. 434 requires banks to publish all of the information requested in a single document or location.

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 for exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07). The Guidelines require that information be provided on:

- loans subject to "moratoriums" which fall within the scope of the EBA's Guidelines on legislative and non-legislative moratoriums on loan payments applied in light of the Covid-19 crisis (EBA/GL/2020/02);
- loans subject to forbearance measures applied for the Covid-19 crisis;
- new loans guaranteed by the Government or other public entities.

This disclosure to the public has been applied starting from 30 June 2020 and has a six-monthly frequency; the information as of 30 June 2020 has therefore already been provided.

Public disclosures are prepared with the collaboration of various bodies and functions involved in the governance and execution of processes, in accordance with the duties laid down in the Group's internal regulations. The Banco Desio Group had already drawn up a formal policy to comply with the disclosure requirements, aimed at formalising the processes used for the preparation and publication of public disclosures.

The following guidelines, which are valid for the preparation of information at 30 June 2021, will also be incorporated into the Pillar III public disclosure policy:

a) in line with existing policy, confirmation that it is to be published as a separate document at the same time as the financial report, but every six months instead of annually as currently envisaged;
b) attestation by the CEO that processes, systems and internal controls have been adopted for preparing the document as defined in the formal policy established by the Bank.

For the sake of completeness, note that the information being published relates to the prudential scope of consolidation, i.e. the companies that are consolidated for supervisory purposes. Any mismatches with respect to other sources (such as the consolidated financial statements prepared at the same reporting date) are therefore attributable to differences in scope.

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

Banco Desio Group has published this Disclosure to the Public on its website (www.bancodesio.it).

1. Key metrics (Art. 447)

Under the provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR, banks controlled by a "financial holding company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial holding company. These provisions lead to the calculation of the capital ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., a company that controls 49.96% of Banco di Desio e della Brianza S.p.A. (of which it holds 50.47% of the ordinary shares and 45.15% of the savings shares).

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

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

The 2.5% capital conservation buffer, in addition to the minimum requirements, is designed to provide banks with high quality capital resources to be used in times of market tension to prevent failures of the banking system and avoid interruptions in the process of credit disbursement.

When drafting the resolution plan, the Bank of Italy, as the National Resolution Authority, also determined the minimum requirement of own funds and eligible liabilities (MREL) for the Banco di Desio e della Brianza Group. This requirement is equivalent to the amount needed to absorb losses and coincides with the greater of the binding total capital ratio required by the SREP (8.60% binding level) and financial leverage (3%).

For the purposes of calculating the "Risk assets and supervisory ratios", EU legislation subjects SMEs to a facilitated weighting system (support factor equal to 0.7619 for exposures up to € 2.5 million and 0.85 for the part in excess € 2.5 million).

> On 25 January 2018, the Bank's Board of Directors resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS 9 on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

The transitional provisions for sterilisation of the impacts of IFRS 9 were subsequently extended by EU Regulation 873/2020, which allowed banks to sterilise in a decreasing manner the impacts on capital associated with the increase in impairment losses on loans recognised in the period 2020 - 2024 compared with 1 January 2020 for stage 1 and 2 portfolios,

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

In application of the changes introduced by CRR II, the key metrics required by art. 447, or the main indicators of capital solidity, degree of debt and liquidity, and the related regulatory requirements to be respected, with reference to the last 5 quarters subject to prudential reporting (i.e. for the period 30 June 2020 - 30 June 2021).

EU KM1 Model: key metrics

		a	b	c	d	e
		30/06/2021	31/03/2021	31/12/2020	30/09/2020	30/06/2020
	Own funds available (amount)					
1	Common Equity Tier 1 (CET 1)	825,101	811,829	787,417	772,503	768,926
2	Tier 1 capital	881,836	868,473	844,089	829,645	826,748
3	Total capital	959,460	948,855	927,097	916,342	917,545
	Risk-weighted exposures (amounts)					
4	Total amount of risk exposure	7,062,071	7,040,274	7,020,179	7,078,733	7,163,537
	Capital ratios (as a percentage of the total amount of risk-weighted exposure)					
5	Common Equity Tier 1 ratio (%)	11.684%	11.531%	11.216%	10.913%	10.734%
6	Tier 1 capital ratio (%)	12.487%	12.336%	12.024%	11.720%	11.541%
7	Total capital ratio (%)	13.586%	13.478%	13.206%	12.945%	12.809%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of the risk-weighted exposure)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0.600%	0.600%	0.600%	0.600%	0.600%
EU 7b	*Of which made up of CET1 capital (percentage points)*	0.350%	0.350%	0.350%	0.350%	0.350%
EU 7c	*Of which made up of Tier 1 capital (percentage points)*	0.450%	0.450%	0.450%	0.450%	0.450%
EU 7d	Total SREP own funds requirements (%)	8.600%	8.600%	8.600%	8.600%	8.600%
	Combined reserve requirement and total capital requirement (as a percentage of the risk-weighted exposure)					
8	Capital conservation buffer (%)	2.500%	2.500%	2.500%	2.500%	2.500%
EU 8a	Conservation buffer due to macroprudential or systemic risk identified at Member State level (%)	0%	0%	0%	0%	0%
9	Institution-specific countercyclical capital buffer (%)	0%	0%	0%	0%	0%
EU 9a	Capital buffer against systemic risk (%)	0%	0%	0%	0%	0%
10	Buffer of global systemically important institutions (%)	0%	0%	0%	0%	0%
EU 10a	Buffer of other systemically important institutions (%)	0%	0%	0%	0%	0%
11	Combined buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
EU 11a	Total capital requirements (%)	11.100%	11.100%	11.100%	11.100%	11.100%
12	CET1 available after meeting total SREP own funds requirements (%)	3.084%	2.931%	2.616%	2.313%	2.134%
	Leverage ratio					
13	Measurement of overall exposure	17,847,708	16,564,255	15,470,072	15,706,018	15,532,146
14	Leverage ratio (%)	4.941%	5.243%	5.456%	5.282%	5.323%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of the measurement of overall exposure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0%	0%	0%	0%	0%
EU 14b	*of which made up of CET1 capital (percentage points)*	0%	0%	0%	0%	0%
EU 14c	Total SREP leverage ratio requirements (%)	3.000%	3.000%	3.000%	3.000%	3.000%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of the measurement of total exposure)					
EU 14d	Leverage ratio reserve requirement (%)	3.000%	3.000%	3.000%	3.000%	3.000%
EU 14e	Overall leverage ratio requirement (%)	3.000%	3.000%	3.000%	3.000%	3.000%
	Liquidity coverage ratio					
15	Total high quality liquid assets (HQLA) (weighted value - average)	3,416,914	3,244,193	2,945,923	2,755,763	2,653,743
EU 16a	Cash outflows - Total weighted amount	2,056,363	2,034,164	2,062,251	2,012,365	1,997,858
EU 16b	Cash inflows - Total weighted amount	492,704	502,120	545,629	588,155	634,740
16	Total net cash outflows (adjusted amount)	1,649,014	1,617,399	1,516,622	1,424,210	1,363,118
17	Liquidity coverage ratio (%)	207.26%	200.41%	193.84%	193.53%	195.39%
	Stable net funding ratio					
18	Total available stable funding	14,130,765	n.a.	n.a.	n.a.	n.a.
19	Total required stable funding	10,521,619	n.a.	n.a.	n.a.	n.a.
20	Net stable funding ratio - NSFR (%)	134.30%	n.a.	n.a.	n.a.	n.a.

At 30 June 2021 the consolidated ratios calculated for the financial holding company are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure referred to previously. <u>There is a continuous and progressive strengthening of capital due to the derisking carried out on the loan book and the regulatory interventions implemented by the European Union.</u>

<u>The capital ratios without applying the transitional provisions</u>, as reported in the following table, also confirm the Group's capital solidity.

Statement of comparison of Own Funds and Capital Adequacy Ratios calculated with application of Regulation 2017/2395 (application of transitional arrangements) and with full application of the impacts relating to IFRS 9 (without application of the transitional arrangements).

	30.06.2021			31.03.2021			31.12.2020		
	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Fully loaded	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Fully loaded	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Fully loaded
Own Funds									
Common Equity Tier 1 (CET 1) capital	825,101	791,740	791,755	811,829	783,270	783,259	787,417	750,839	751,302
Tier 1 capital	881,836	847,836	847,663	868,473	839,344	839,144	844,089	806,759	806,843
Total Own Funds	959,460	924,872	924,748	948,855	919,086	918,937	927,097	889,301	889,464
RISK ASSETS									
Risk-weighted assets	7,062,071	6,982,213	6,982,213	7,040,274	6,969,254	6,969,254	7,020,179	6,926,402	6,926,402
SUPERVISORY RATIOS									
Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)	11.684%	11.339%	11.340%	11.531%	11.239%	11.239%	11.216%	10.840%	10.847%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.487%	12.143%	12.140%	12.336%	12.044%	12.041%	12.024%	11.648%	11.649%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.586%	13.246%	13.244%	13.478%	13.188%	13.186%	13.206%	12.839%	12.842%
LEVERAGE RATIO									
Measurement of total leverage ratio exposure	17,847,708	17,847,708	17,847,708	16,564,255	16,564,255	16,564,255	15,470,072	15,470,072	15,470,072
Leverage ratio	4.9%	4.8%	4.7%	5.2%	5.1%	5.1%	5.5%	5.2%	5.2%

	30.09.2020			30.06.2020	
	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Fully loaded	Application of IFRS 9 transitional arrangements	Without application of IFRS 9 transitional arrangements
Own Funds					
Common Equity Tier 1 (CET 1) capital	772,503	742,682	743,564	768,926	738,070
Tier 1 capital	829,645	799,202	799,706	826,748	795,235
Total Own Funds	916,342	885,646	886,208	917,545	885,877
RISK ASSETS					
Risk-weighted assets	7,078,733	7,001,191	7,001,191	7,163,537	7,081,656
SUPERVISORY RATIOS					
Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)	10.913%	10.608%	10.621%	10.734%	10.422%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.720%	11.415%	11.422%	11.541%	11.230%
Total Own Funds/Risk-weighted assets (Total capital ratio)	12.945%	12.650%	12.658%	12.809%	12.509%
LEVERAGE RATIO					
Measurement of total leverage ratio exposure	15,706,018	15,706,018	15,706,018	15,532,146	15,531,488
Leverage ratio	5.3%	5.1%	5.1%	5.3%	5.1%

The Group complies with the liquidity coverage ratio (LCR) requirement, placing itself well above the minimum level envisaged by the regulations. The trend in the indicator is rising compared with the last quarters under review; 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 as of 30 June 2021, is a liquidity indicator that measures the availability of stable funding; in fact, banks are required to maintain a certain amount of funding that is either stable or expiring beyond 12 months, which allows them to finance their activities in the long term.

2. COVID-19 INFORMATION

The disclosure required according to the EBA/GL/2020/07 formats is provided below with reference to the moratoriums granted and the new disbursements subject to public guarantee schemes in the context of Covid-19 as of 30 June 2021. With reference to the disbursements in table 3, they consist of liquidity disbursements with a maximum duration of 10 years guaranteed by MCC and Sace, for an amount included, depending on the characteristics of the borrower and the amount requested, between 80% and 100% of the amount disbursed.

Table 1: Information on loans and advances subject to legislative and non-legislative moratoriums

	Gross carrying amount							Loss of recorded amount, negative changes calculated at fair value due to credit risk							Gross carrying amount
		Performing exposures			Non-performing exposures				Performing exposures			Non-performing exposures			
			Of which: Forborne loans	Of which: Instruments with significant increase in credit risk from initial recognition but not non-performing (Stage 2)		Of which: forbearance	Of which: Unlikely to pay or past-due <= 90 days			Of which: Forborne loans	Of which: Instruments with significant increase in credit risk from initial recognition but not non-performing (Stage 2)		Of which: Forborne loans	Of which: Unlikely to pay or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to a moratorium	781,100	737,732	123,601	627,757	43,368	30,008	41,001	40,923	27,338	7,439	26,962	13,585	9,467	12,719	6,073
of which: Households	159,674	149,106	32,838	106,195	10,568	8,628	10,498	6,938	4,359	1,585	4,238	2,579	2,050	2,552	370
of which: Secured by residential property	101,926	93,015	22,358	62,391	8,911	7,397	8,883	4,555	2,483	1,073	2,441	2,072	1,690	2,064	262
of which: Non-financial companies	618,320	585,598	89,791	518,582	32,722	21,380	30,426	33,845	22,871	5,816	22,617	10,974	7,418	10,135	5,702
of which: Small and medium-sized enterprises	534,099	512,394	85,548	473,835	21,705	11,998	19,654	27,352	20,815	5,376	20,682	6,537	3,355	5,752	5,609
of which: Secured by commercial property	340,260	319,403	65,681	307,373	20,857	13,469	20,623	22,348	15,027	4,537	15,005	7,321	4,798	7,275	1,710

Table no. 2: Breakdown of loans and advances subject to legislative and non-legislative moratoriums by residual duration of the moratorium

	Number of debtors	Gross carrying amount							
			Of which: legislative moratorium	Of which: past-due	Residual maturity of the moratorium				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which a moratorium has been offered	16,468	2,475,700							
Loans and advances subject to a moratorium (granted)	16,468	2,475,700	1,527,050	1,694,600	184,780	539,822	30,568	14,352	11,578
of which: Households		817,516	417,928	661,914	58,678	69,559	17,595	9,520	250
of which: Secured by residential property		640,775	310,671	538,849	44,625	35,592	12,880	8,610	219
of which: Non-financial companies		1,630,330	1,097,644	1,012,009	125,594	463,623	12,973	4,803	11,328
of which: Small and medium-sized enterprises		1,295,760	929,524	761,661	94,153	422,711	8,757	4,257	4,221
of which: Secured by commercial property		694,173	523,612	353,913	57,010	269,322	5,400	2,472	6,056

Table no. 3: Information on next generation loans and advances provided under newly implemented public guarantee schemes introduced in response to the Covid-19 crisis

	Gross carrying amount		Maximum amount of collateral that can be considered	Gross carrying amount
		of which: Forborne	Public guarantees received	Inflows to non-performing exposures
Newly established loans and advances subject to public guarantee schemes	**2,295,514**	**3,966**	**1,964,724**	**2,648**
of which: Households	169,258			-
of which: Secured by residential property	-			-
of which: Non-financial companies	2,118,931	3777	1,802,271	2,504
of which: Small and medium-sized enterprises	1,760,863			-
of which: Secured by commercial property	-			-

The increase in guaranteed disbursements compared with 31 December 2020, at around 0.5 billion euro, is evidence of a continuation of the derisking measures on the loan book already taken last year and of the economic support provided by the Group through the provision of new liquidity to businesses.

Attestation of the Financial Reporting Manager

The Financial Reporting Manager, Mauro Walter Colombo, declares pursuant to paragraph 2 of Article 154-bis of the Consolidated Finance Act that the accounting information contained in this document entitled "Basel III Pillar 3 at 30 June 2021" agrees with the supporting documents, books of account and accounting records.

Financial Reporting Manager

Mauro Walter Colombo

Attestation on disclosure policies and obligations pursuant to Part eight, art. 431 paragraph 3 of the European Regulation 575/2013 of 26 June 2013 and subsequent amendments and additions[1]

The undersigned Alessandro Decio, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Officer of Banco di Desio e della Brianza S.p.A. attest the following, taking into account the provisions of art. 431 of EU Regulation 575/2013 (CRR) and subsequent amendments and additions:

- the adequacy of the document "Basel III Pillar 3 at 30 June 2021" with respect to what is required in "Part eight - Disclosure by institutions" of the CRR and
- the application of administrative procedures in preparing the disclosure to the public in accordance with the bank's formal policy and with its processes, systems and internal controls.

Chief Executive Officer

Alessandro Decio

Financial Reporting Manager

Mauro Walter Colombo

[1] In this regard, it should be noted that to date there is no defined standard for attestation and that the most appropriate additions to the control processes are still being evaluated to reflect the regulatory changes introduced in the CRR. Taking into account the fact that financial and reporting information constitute a preponderant part of the disclosures provided as at 30 June 2021, the Bank opted for a joint attestation by the Chief Executive Officer and the Financial Reporting Officer. This approach will have to be confirmed subsequently by market practice or any other indications provided by the regulatory authorities.