



Banco Desio

**ANNUAL REPORT
ON
CORPORATE GOVERNANCE
AND THE OWNERSHIP SET-UPS
OF THE GROUP
PURSUANT TO ARTICLE 123-BIS OF THE CFL.**

2012 ACCOUNTING PERIOD

(BoD held on 20 March 2013)

BANCO DI DESIO E DELLA BRIANZA S.p.A.
Registered office in Via Rovagnati, 1 – 20832 Desio (Monza and Brianza)
Tax Code no. 01181770155
Enrolled in the Monza and Brianza Business Register
Share capital Euro 67,705,040.00 fully paid-in
Member of the Interbank Deposit Protection Fund
and the National Guarantee Fund
Enrolled in the Bank Register with the ABI Code no. 3440/5
Parent Company of the Banco di Desio e della Brianza Banking Group
Enrolled in the Banking Group Register no. 3440/5

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ATTACHED SCHEDULES

- 1 – STRUCTURE AND FUNCTIONING OF THE BOARD OF DIRECTORS AND THE COMMITTEES
- 2 – STRUCTURE AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS
- 3 – MAIN OFFICES COVERED BY THE REPRESENTATIVES
- 4 – SUMMARY OF COMPLIANCE WITH THE PROVISIONS OF THE CODE OF CONDUCT
- 5 – COMPARISON OF ART. 6 OF THE CODE OF CONDUCT AND THE GROUP STOCK GRANT PLAN

MAIN DEFINITIONS USED IN THIS REPORT

CBL: Consolidated Banking Law – Italian Legislative Decree No. 385/1993 and subsequent amendments and additions.

CFL: Consolidated Finance Law – Italian Legislative Decree No. 58/1998 and subsequent amendments and additions.

Company representatives: Directors, Standing and Alternate Auditors, the General Manager and the Deputy General Manager.

Executives with strategic responsibilities: the Deputy General Manager.

Appointed Executive: the Executive appointed to draw up the accounting documents as disciplined by Article 154-bis of the CFL.

Italian subsidiary bank: Banco Desio Lazio SpA (hereinafter for the sake of brevity “B.D. Lazio”).

Italian Group Banks: the Parent Company (Banco di Desio e della Brianza SpA or in short “Banco Desio”) and the Italian Subsidiary Bank as defined above.

Banking Group: the Banking Group as defined by the CBL, including Banco Desio (Parent Company) and the subsidiary banking and finance companies, therefore excluding the insurance companies.

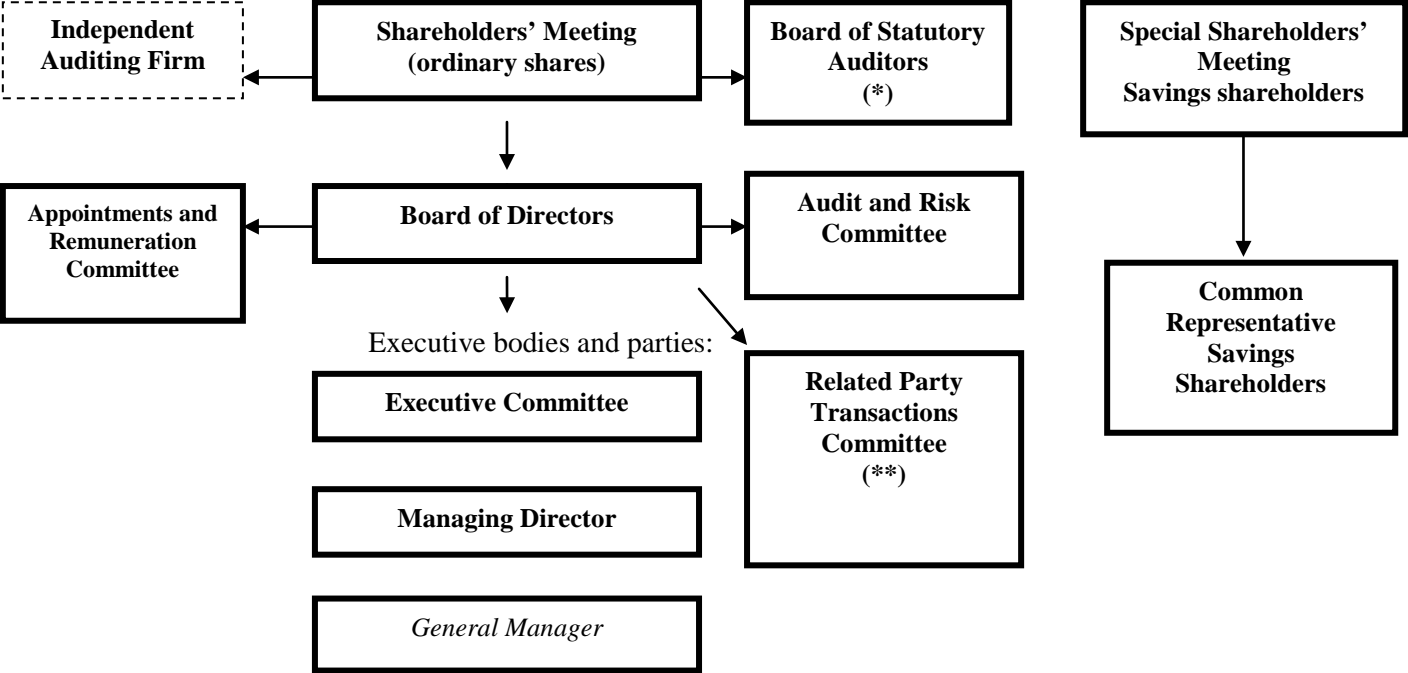
Group: the corporate Group including Banco Desio (Parent Company) and all subsidiary companies.

Supervisory Body: Bank of Italy and Consob.

1 – GENERAL INTRODUCTORY REMARKS ON THE CORPORATE GOVERNANCE SYSTEM

1.1 Preliminary remarks on the current set-up

With the exception of some actions taken to optimise the set-up of the bodies inherent in the internal audit system and the system of powers, which will be fully explained later in this document, during 2012 **no significant changes took place with regard to the essential profile** within the overall corporate governance structure of Banco Desio and the Group. In detail, the Bank’s systematic structure can be illustrated by means of the following layout:



Key: the arrows indicate the appointment relationships between the main bodies (note that the BoD is also responsible for appointing the Deputy General Manager, Appointed Executive and Heads of the Internal Auditing Divisions).

(* the Board of Statutory Auditors also performs the tasks of the Supervisory Body established pursuant to Italian Legislative Decree No. 231/2001 (hereinafter, also “SB 231”). For more detail, see section 7.

(**) the Related Party Transactions Committee was established by Board of Directors resolution dated 11 November 2010, in compliance with Consob Resolution no. 17221/2010. For more detail, see section 5.

The division of functions between the Shareholders’ Meeting, the Board of Directors, the Board of Statutory Auditors and the Independent Auditing Firm is disciplined by legal and supervisory legislation, to which the Articles of Association refer.

With regard to the general aspects, the division of the functions between:

- i) Senior Bodies (Board of Directors, Advisory/Proposal-making Committees¹, Executive Committee),
- ii) Executive Parties (Managing Director and General Manager),
- iii) Technical/Operating Committees²;
- iv) Heads of Internal Auditing, Risk Management and Compliance divisions, and the
- v) Appointed Executive

is disciplined, in observance of legal, supervisory and Articles of Association restrictions, by Group and Corporate Bodies’ Internal Regulations (for the sake of brevity “Internal Regulations”), most recently updated by the BoD on 20 December 2012, according to criteria which will be detailed in the following sections. With regard to the specific aspects not analysed by the Internal Regulations, reference is made to the “Organisational Structure and Description of the Functions”, “Consolidated Codes” regarding function/process, the “Internal Procedures” and the “Policy”, documents also approved by the Board of Directors.

With regard to the other internal legislative sources fully or partly inherent to the matters covered in this Report (the majority of which were recently subject to optimisation actions consistent with those noted above), the following are indicated:

1. the General Shareholders’ Meeting Regulations (see Section 10 below);
2. the Information Flows Regulation for Corporate Bodies adopted by the BoD on 19 July 2012 and updated on 20 December 2012;
3. the Internal Procedure regarding Corporate Information (“Corporate Information Procedure”), most recently updated on 29 January 2013, containing, among other things, the functioning of the Corporate Bodies in specific reference to the dissemination of related documentation and the handling of privileged information and the register of the individuals who have access to the same, as well as for the communication of Internal Dealing transactions;
4. the Internal Procedure for Transactions with Related Parties and Connected Parties (now jointly defined as “Associated Parties”) and Article 136 of the CBL, approved by the BoD on 25 November 2010 in compliance with Consob Regulation no. 17221/2010 (see section 5 below) and updated on 21 June 2012. Most recently, it was updated on 29 January 2013 in compliance with prudential Supervisory Provisions for risk assets and conflicts of interest with associated parties issued by the Bank of Italy in December 2011 in accordance with Article 53 of the CBL;

¹ The Advisory/Proposal-making Committees (Appointments and Remuneration Committee, Audit and Risk Committee, Related Party Transactions Committee) are composed solely of Board members and are, as such, defined as internal board committees.

² The Technical/Operating Committees (Credit Facilities Committee, Finance Committee) consist of Executive Parties (MD and GM) and the Heads of specific corporate divisions.

5. the “Policy” containing the general rules for handling conflicts of interest regarding investment services, which the procedures used to identify the types of conflict of interest, potential or otherwise, in relation to the provision of any investment service or activity, related service, etc. make reference to, by way of implementation of the provisions acknowledging the MIFID Directive, (see section 5 below); this Policy was merged with a specific Consolidated Law in 2012;
6. the “Policy” containing the general rules for governing “personal transactions”³ in relation to investment services, and by way of implementation of the provisions acknowledging the MIFID Directive;
7. the “Policy” that defines the Group’s overall risk propensity (“Risk Appetite”), intended as the maximum amount of capital that the Group is prepared to make available to hedge risks against a set expected return and that contains the general rules for business risk management in reference to each type of risk indicated in prudential Supervisory Provisions of Bank of Italy, adopted by the Board on 6 December 2012;
8. the “Policy” containing the general rules for managing risks of money laundering and financing of terrorism, adopted by the Board on 20 December 2012, in accordance with Supervisory Provisions regarding the related organisation, procedures and internal controls issued by Bank of Italy in March 2011 in accordance with Legislative Decree no. 231/2007 and Legislative Decree no. 109/2007;
9. the Consolidated Code for the internal audit system, most recently updated by the BoD on 20 December 2012;
10. the Consolidated Code for the remuneration and incentive system approved by the BoD on 20 March 2012.

* * *

In the explanation, the traditional layout was maintained that, for lack of consistent provisions on the matter, takes into consideration the guidelines originally recommended by Borsa Italiana S.p.A. and by Assonime, as well as the non-binding format issued by Borsa Italiana in the IV edition of February 2013.

As such, for the purposes indicated in section 3 of the aforementioned format, the attached Table 4 was maintained, which included the schedule summarising the implementation status of the recommendations in the Code of Conduct for Listed Companies as per paragraph 2.2⁴ (for the sake of brevity “the Code of Conduct”).

³ Personal Transaction is understood, for the specific purposes of the aforementioned “Policy”, as a trade in a financial instrument effected by or on behalf of a Relevant Person, where at least one of the following criteria is met:

- a. the Relevant Person is acting outside the scope of the activities he carries out in his capacity as a Relevant Person;
- b. the trade is carried out for the account of any of the following persons:
 - i. the Relevant Person;
 - ii. any person with whom the Relevant Person has a “Family Relationship” or “Close Links” ;
 - iii. a person whose relationship with the Relevant Person is such that the Relevant Person has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade.

A Relevant Person shall mean persons belonging to one of the following categories relating to each Group Company:

- a) members of “Corporate Bodies” (understood, also hereafter, as the Board of Directors and the Board of Statutory Auditors);
- b) shareholders who possess a significant equity investment in the Parent Company or in Group Companies;
- c) executives (including, also hereafter, the General Manager);
- d) employees;
- e) temporary workers and project-based contractors who participate in the provision of investment services and the exercise of investment activities;
- f) individuals who directly participate in the provision of services to the Group Parent and Group Companies based on an outsourcing agreement regarding the provision of investment services and related services.

Persons with whom the Relevant Person has a Family Relationship are intended as:

- a. the (not legally separated) spouse or the common law spouse of the Relevant Person;
- b. the children of the Relevant Person ;
- c. any other relative of the Relevant Person to the fourth degree (i.e. parents, grandparents, great-grandparents, grandchildren, first cousins, aunts, uncles and great-aunts and great-uncles) who has shared the same household as the Relevant Person for at least one year on the date of the Personal Transaction.

Parties with which the Relevant Person has Close Links means one or more individual or legal persons linked to a Relevant Person by:

- a) an equity investment (which means ownership, direct or by way of control, of 20% or more of voting rights or capital of an undertaking);
- b) control.

⁴ Code of Conduct for Listed Companies – Borsa Italiana – 2011 Edition

This Report:

- has been drawn up in pursuance of Article 123-bis of the CFL, which lays down a series of information on the ownership set-ups, the corporate governance practices, the risk management and internal audit systems relating to the financial disclosure process, and the composition and functioning of the general meeting, board and audit bodies; the independent auditing firm is required to express a consistent opinion on certain information required;
- has been approved by the BoD, subject to the assessment of the Independent Directors as per a specific recommendation in the Code of Conduct as assimilated in the Internal Regulations⁵. This assessment is attached to said Report (Attachment A);
- is published, albeit as a separate document, together with the Report on Operations, which also contains the due references. Likewise, it contains references to the financial statement documentation (Notes to the Consolidated Financial Statements, Report on Operations, etc.), as well as the Remuneration Report as per the subsequent point, for the information contain therein which otherwise would be duplicated;
- is published along with the Remuneration Report prepared in accordance with Article 123-ter of the CFL. The latter also contains the information required by Bank of Italy's Supervisory Provisions of 30 March 2011 regarding remuneration and incentive policies and practices in banks and banking groups.

This Report and the aforementioned Remuneration Report are also published on the website www.bancodesio.it in the Corporate Governance section.

1.2 Guidelines for the corporate governance system in light of Supervisory Provisions (“Corporate Governance Project”)

As the reader is aware, during 2008 the Bank of Italy issued supervisory provisions concerning the organisation and corporate governance of banks (hereinafter, “the Bank of Italy Instruction” or, more briefly, “the Instruction”)⁶, which discipline the role and the functioning of the management and audit bodies, submitting effective identification – as part of the application guidelines provided by the Supervisory Authority – of the most suitable solutions for achieving, on a proportional basis, the related general principles (including the Code of Conduct, as specifically referred to in the introductory section), for the autonomy of the intermediaries.

The corporate governance system deriving from the adaptation measures implemented from 2009 (focused on maintaining the traditional management and audit model and streamlining certain functioning mechanisms of the model) features three levels of regulations, i.e. the Articles of Association, Internal Regulations, and Consolidated Internal Audit System Code. The important points of these regulations are summarised below:

1.2.1. Articles of Association

Duties and powers of the corporate bodies

A.1 Board of Directors

The body tasked with strategic supervision is first and foremost reserved the decisions concerning strategic policies and transactions as well as business and financial plans. This provision is included in both the Articles

⁵ The Independent Directors meet at least once a year in the absence of the other Directors (as a rule, at the time of the approval of the Annual Corporate Governance Report and for the purpose of expressing their opinion on the aspects they are responsible for).

⁶ Bank of Italy Instruction dated 4 March 2008 (hereinafter “the Instruction”) also available on the website: www.bancaditalia.it, which also contains other supervisory provisions mentioned in this Report and the application guidelines of the aforementioned Instruction issued on 11 January 2012.

of Association of the Parent Company and in the Articles of Association of the Italian Subsidiary Bank (for further details see section 3 below).

Among the powers which cannot be delegated, the BoD is responsible for appointing the heads of the internal auditing and compliance divisions and defining the essential elements of the overall architecture of the internal audit system⁷ (subject to the favourable opinion of the Board of Statutory Auditors). This provision is included in the Articles of Association of all the Group's Italian Banks (even though in the Italian Subsidiary Bank it effectively refers to functions performed by the Parent Company by virtue of outsourcing agreements, with particular reference to the internal audit, compliance and risk management functions).

A.2 Board of Statutory Auditors

The body with auditing functions oversees the observance of the legal, regulatory and Articles of Association provisions, the correct administration, and the adequacy of the organisational and accounting set-ups of the bank. Due to the importance of these tasks for supervisory purposes, the CBL (Article 52) has prepared a functional connection mechanism with the Supervisory Authority: the auditing body must promptly inform the Bank of Italy of all the events or acts it becomes aware of that may represent an irregularity in the management of the banks or a violation of the norms disciplining banking activities. For such purposes, the Bank's Articles of Association assign the Board of Statutory Auditors the related duties and powers, which are illustrated in full within said Articles, according to the structure indicated in section 2.2 of the Bank of Italy Instruction.

Furthermore, as part of the aforementioned structural optimisation actions of the Bodies inherent in the internal audit system, the Board of Statutory Auditors assumed the role of SB 231 on 27 September 2012, in consideration of the provisions of section 4-bis of Article 6 of the aforementioned Legislative Decree no. 231/2001, introduced by Article 14, section 12 of Law no. 183 of 12 November 2011 (the "2012 Stability Law"), as well as a specific recommendation in the Code of Conduct.

B. Composition of the Corporate Bodies

With regard to the Parent Company, the discipline of "list voting" is in force for the election of the members of the BoD and the Board of Statutory Auditors, already introduced in the Articles of Association, by virtue of Article 147-ter and Article 148 of the CFL.

In addition, on 28 February 2013, the Board of Directors launched a process to amend the Articles of Association for the "category shares" discipline introduced in the cited articles of the CFL and Law no. 120/2011.

For more information, see subsequent sections 3 and 9. In the Articles of Association of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A), as well as the Parent Company, the role of "**independent director**" was added based on similar requirements.

C. Remuneration and incentive mechanisms

With regard to all the Italian Group Banks, a concise indication is provided of the matters envisaged by section 4 of the Bank of Italy Instruction: i) in the Articles of Association with respect to the general principles, where the Ordinary Shareholders' Meeting, in addition to establishing fees due to the Bodies it has appointed, approves the remuneration policies, including the plans based on financial instruments; ii) in the Internal Regulations with regard to the application policies (for greater details also see section 6 below).

⁷ Among the "essential elements of the overall architecture of the system of controls", section 2.2 of the Bank of Italy Instruction indicates "powers, responsibilities, information flows, and handling of conflicts of interest".

1.2.2. Internal Regulations

With regard to the regulatory provisions that are complementary to Articles of Association provisions as per the previous section 1.2.1, the Internal Regulations of the Italian Group Banks acknowledge the application policies of the Bank of Italy Instruction as per points A.2) Board of Statutory Auditors and C) Remuneration and incentive mechanisms (for further details also see section 6 below).

With reference to point B) Composition of the Corporate Bodies, the general limits are extended to the Internal Regulations of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A) on the accumulation of the offices by Directors and Statutory Auditors respectively, similar in part to those already adopted, by law and/or due to self-governance, within the Parent Company (for further details also see sections 3 and 9 below). It is also established, within the Internal Regulations of the Italian Group Banks, that the Statutory Auditors cannot undertake offices in bodies other than the Board of Statutory Auditors within other Group Companies, as well as with companies in which Banco Desio directly or indirectly holds a strategic investment⁸.

The Internal Regulations of the Italian Group Banks contain the necessary elements to define the scope of audit activities in the broadest sense for which each Senior Body (BoD, Board of Statutory Auditors, Audit and Risk Committee) and the Executive Parties (Managing Director and General Manager) are responsible.

In relation to the above, an article dedicated to the Board of Statutory Auditors has been included in the Internal Regulations of the Italian Group Banks that now governs the duties of said Board in its role as SB 231 as envisaged by the Organisation, Management and Control Model adopted pursuant to Legislative Decree no. 231/2011 (hereinafter, also “OMCM 231”).

With reference to the role of Chairman of the Board of Directors, who according to the general principles expressed in the same Instruction, performs an important role for the purpose of encouraging internal dialogue and ensuring the balancing of the powers, in the Internal Regulations of the Italian Group Banks it is specified that “the Chairman furthers the effective functioning of the corporate governance system, guaranteeing the balance of powers with respect to the Managing Director and any other executive Directors, as well as the General Manager”. For such purposes, the Chairman “supervises the organisation of the Board’s activities and the dissemination of related information, promoting the constant performance of the Board’s role in strategic oversight” and “acts as the spokesperson of the Board of Statutory Auditors and the advisory/proposal-making committees established within the Board of Directors”.

In accordance with the matters specified by the Bank of Italy in the clarification memo dated 27 February 2009, it is also made clear that the Chairman (except in particularly urgent cases when he can, by way of exception, adopt decisions which are the Board’s, as per the Articles of Association) has a non-executive role and does not carry out management functions, not even *de facto*. Furthermore, as a result of his participation in the Executive Committee and in consideration of changes in the frequency of meetings and the expansion of his responsibilities, the Chairman is now considered an Executive Director (see section 4 below).

⁸ As indicated by section 2.2.e) of the Bank of Italy Instruction, “strategic” for such purposes is understood to mean the equity investment which is equal to at least 10% of the share capital or the voting rights during ordinary shareholders’ meetings of the investee company and 5% of the consolidated regulatory capital of the banking group.

1.2.3. Consolidated Internal Audit System Code

1.2.3.1 - GENERAL STANDARDS OF THE INTERNAL AUDIT SYSTEM

The Internal Audit System is made up of a series of rules, procedures and organisational structures which aim to ensure the observance of the corporate strategies and the achievement of the following ends:

- compliance of the operations with respect to corporate strategies and norms within and outside the Company;
- performance in terms of process optimisation, also by means of the correct allocation of the resources and the informed undertaking of risks;
- safeguarding the value of assets and the income flow;
- information, to guarantee the quality and integrity of significant information for the internal decision-making processes and the external context;
- improvement, to ensure on-going corrective actions to eliminate shortfalls and the consistent evolution of organisational safeguards with respect to corporate strategies and the reference context.

Irrespective of the organisational structures involved, three types of controls can be identified:

- line controls: these involve a series of routine checks carried out by the same production structures or incorporated in the procedures (also IT based), or carried out as part of the back-office activities.
- controls on risk management: these are controls which have the aim of contributing towards the definition of risk gauging methods, checking the observance of the limits assigned to the various operating divisions and the consistency of the operations of the individual production areas with the risk/return objectives assigned for the individual types of risk, as well as ensuring compliance with reference legislation.
- internal auditing activities: these are activities aimed at identifying anomalous trends, violations of procedures and regulations, as well as assessing the functioning of the overall Internal Audit System.

With reference to the Group's Internal Audit System, the Parent Company, as part of the Group's management and co-ordination activities, exercises:

- a) strategic control on the evolution of the various areas of activities where the Group operates and the impending risks on the portfolio of activities carried out;
- b) management control aimed at maintaining the balance of the economic, financial and equity conditions, both for individual companies and the Group in its entirety;
- c) technical-operating control aimed at evaluating the various risk profiles contributed to the Group by the individual subsidiaries.

For further details on the individual bodies and divisions operating within the Internal Audit System, reference should be made to section 1.2.3.2 below.

These general principles also apply to the Italian Subsidiary Bank (Banco Desio Lazio S.p.A), as well as the other subsidiaries, with the necessary limitations and adaptations dictated by their specific organisational and operational characteristics resulting from their area of activities (banking, finance, insurance, etc.) or their geographic location (Italy, Luxembourg, Switzerland), as well as liquidation procedures and/or procedures for disposals currently underway for these entities (see section 2.3 below).

The Consolidated Internal Audit System Code was revised on 20 December 2012 to align it with the aforementioned structural optimisation of the Bodies and the related flows.

1.2.3.2 BODIES AND ROLES OF THE INTERNAL AUDIT SYSTEM

In line with the Bank of Italy's supervisory provisions and the standards envisaged by the Code of Conduct, the Internal Audit System is made up of the following bodies and roles, to which the main internal auditing responsibilities indicated below are assigned:

GOVERNANCE⁹ AND AUDIT BODIES

- **Board of Directors**, which, within the sphere of its extensive governance responsibilities, including Group level, approves strategic guidelines, risk management policies and the structure of the internal audit systems for the Companies and the Group;
- **Board of Statutory Auditors**, which, as the body with audit functions, **oversees** the observance of the legal, regulatory and Articles of Association provisions, proper management, the adequacy of the organisational and accounting set-ups of the Bank, and performs audit activities as envisaged in Legislative Decree no. 39/2010. Furthermore, in performing the functions of Supervisory Body as per Legislative Decree no. 231/2001, oversees the functioning and observance of Organisational Model 231 and is responsible for its updating;
- **Audit and Risk Committee**, which, in its role as proposal-making/advisory body, assists the Board of Directors with the performance of the tasks it is assigned with regard to the Internal Audit System and, in particular, in relation to assessing the degree of efficiency and adequacy of the risk management, measurement and control system.

MANAGING DIRECTOR AND GENERAL MANAGER

- **Managing Director**, who – as the “Director responsible for the risk management and audit system” – is responsible for supervising the implementation of policies and guidelines established by the Board of Directors with regard to Group risk management and internal auditing;
- **General Manager**, who, is responsible for drawing up, in his capacity as party appointed with personnel management and organisation and running of the corporate structures, the measures necessary for ensuring the maintenance of an efficient and effective system of internal controls in keeping with the risks associated with corporate operations;

INTERNAL AUDIT DIVISIONS/ROLES

- **Appointed Executive**, who is responsible – pursuant to Article 154-*bis* of the CFL – for the task of defining and maintaining a Group organisational and **financial disclosure control** model, aimed at ensuring the reliability and integrity of the accounting and operating information. Additional information on the main features of the risk management and internal audit systems existing in relation to this process, is provided in section 7 below, in accordance with Article 123-*bis* section 2;

⁹ The concept of “governance” refers to the definitions of “strategic supervision” and “management” pursuant to the Bank of Italy Instruction dated 4 March 2008 on corporate governance.

- **Compliance Division**, which is assigned the task of handling and overseeing, at Group level, the risk of non-compliance with regulations;
- **Risk Management Division**, which is responsible for the task of gauging and monitoring the Group's exposure to the different types of risk, in particular market, credit, rate, liquidity and operating risks;
- **Internal Auditing Division**, which is responsible for the task of checking that the corporate and Group Internal Audit System, in its entirety, is adequate and functioning.

OTHER CORPORATE DIVISIONS

- **Heads of the corporate organisational units** (Departments, Areas, Offices, Sectors, Branches, etc.) who are responsible for ensuring the implementation of the line controls envisaged or necessary for the effective supervision of risks associated with the operations of the respective organisational units.

2 – GENERAL INFORMATION ON THE OWNERSHIP SET-UPS AND ON OTHER CORPORATE ASPECTS, ON COMPLIANCE WITH A CODE OF CONDUCT AND ON THE GROUP STRUCTURE

This section contains information on the ownership set-ups and the corporate aspects **pursuant to Article 123-bis of the CFL**, as well as on the Group structure and the management and coordination activities, according to the various banking and statutory rules. Unless specified otherwise, the information listed below refers to the Italian Group Banks.

2.1 OWNERSHIP SET-UPS AND OTHER CORPORATE ASPECTS OF BANCO DESIO (Article 123-bis of the CFL, section 1)

a) Structure of the share capital

Banco Desio's share capital, fully subscribed and paid-in, is made up of a total of 130,202,000 shares (with a par value of Euro 0.52 each), of which 117,000,000 ordinary shares (around 90% of the total) and 13,202,000 non-convertible savings shares (around 10% of the total).

The ordinary shares, listed since 1995 in the MTA (On-line Equity Market), grant the holders the rights and obligations envisaged by current legislation (in particular, the right to profits and voting rights pursuant to Articles 2350 and 2351 of the Italian Civil Code), without Articles of Association exceptions or limitations.

The non-convertible savings shares, issued at the time of the share capital increase and listed on the MTA in 1999, have the following specific features, established by special legislation (Article 145 of the CFL) and by the Articles of Association:

- they lack the right to vote during ordinary and extraordinary shareholders' meetings;
- they can be bearer shares, except those held by Representatives;
- they are not convertible, on an optional basis, into ordinary shares;
- they have a preference with regard to the allocation of the profit for the year, which must never be less than 7% of their par value and must in total be 20% higher with respect to that due to ordinary shares;
- in the event the company is wound up, they have a pre-emption with regard to the reimbursement of capital for their entire par value;
- in the event of exclusion from trading of the ordinary and savings shares, these savings shares automatically change into shares with a limited right to vote for the resolutions adopted by the Extraordinary Shareholders' Meeting, without prejudice to the equity privileges indicated above.

With regard to the category organisation, refer to section 11.

Other specific categories of shares or financial instruments sharing in the profit endowed with specific equity or

administrative rights have not been issued nor is the option to issue the same envisaged by the Articles of Association.

On 29 November 2011, the Extraordinary Shareholders' Meeting resolved a divisible scrip issue, pursuant to Article 2349 of the Italian Civil Code, of a maximum nominal value of Euro 520,000, corresponding to a maximum of 1,000,000 ordinary shares of a nominal value of Euro 0.52 each. The scrip issue is intended to service the Stock Grant Plan for Banco Desio Group management, to be issued by the Board of Directors in several tranches, under the terms and conditions envisaged in said Plan, which was adopted to align the Group's incentive system with Supervisory Provisions regarding remuneration and incentive policies and practices. For additional information, refer to the Stock Grant Plan Disclosure Document, in accordance with Article 114-bis of the CFL and Article 84-bis of Consob Regulation no. 11971/99, available on the internet site, www.bancodesio.it, in the section "Investor Relations / Assemblee / Assemblee 2011" (Investor Relations / Shareholders' Meetings / 2011 Shareholders' Meetings), as well as an attachment to the Remuneration Report as per Article 123-ter of the CFL.

b) Restrictions on the transfer of shares

No voluntary or Articles of Association restrictions on the circulation of the shares are envisaged, such as limits to the possession of shareholdings or approval clauses. Furthermore, making equity investments in the Banks' share capital that would exceed the specific percentage thresholds is subject to restrictions established by the CBL and Supervisory Provisions.

c) Significant investments

Shareholders who hold equity investments in Banco Desio of **over 2%** as of 31 December 2012 were as follows:

- with regard to the share capital represented by a total of 117,000,000 ordinary shares:

- Brianza Unione di Luigi Gavazzi & C. S.A.p.A.	52.92% (controlling interest)
- Avocetta S.p.A.	8.60%
- Stefano Lado (of which 5.88% via Vega Finanziaria S.p.A.)	7.93%
- Gerolamo Gavazzi (of which 2.25% via Averla S.p.A.)	2.65%

- with regard to the share capital represented by a total of 13,202,000 savings shares:

- Brianza Unione di Luigi Gavazzi & C. S.A.p.A.	44.69%
- Avocetta S.p.A.	10.62%
- Stefano Lado (of which 4.33% via Vega Finanziaria S.p.A.)	6.06%
- Gerolamo Gavazzi (of which 3.58% via Averla S.p.A.)	3.96%

The information on significant investments was essentially acquired on the basis of the entries in the Shareholders' Register, as well as the indications received by the company in accordance with Article 114, section 7 of the CFL (Internal Dealing) and Article 120 of the CFL (Ownership set-ups).

d) Securities which grant special control rights

No securities have been issued which grant special control rights.

e) Shareholdings of employees: voting procedure

Refer to letter a) above regarding the 2011-2013 Stock Grant Plan for Banco Desio Group management, as well as the specific Disclosure Document mentioned therein.

f) Restrictions on voting rights

Restrictions on voting rights are not envisaged, except for the above limitation regarding savings shares and without prejudice to other restrictions envisaged by *ad hoc* legislation (for example: failure to acquire authorisation for the purchase of significant investments, not meeting “good standing” requirements by those investing in the share capital, failure to fulfil specific disclosure obligations vis-à-vis the Bank of Italy and Consob, etc.).

g) Agreements between shareholders

There are no shareholders’ or corporate agreements between shareholders, as envisaged by current provisions (Article 20 of the CBL and Article 122 of the CFL).

h) Change of control clauses

Banco Desio and/or its subsidiaries do not have any significant agreements outstanding, whose efficacy is subordinated, or which change or cease in the event of any change in the control of the Bank. To be more specific, agreements of this type were stipulated with subsidiaries in reference to any changes in control and the subsequent exit from the Banco Desio Group scope of consolidation.

i) Indemnity paid to directors in the event of early termination of the relationship

Refer to section 6 of the Remuneration Report.

l) Appointment and replacement of Directors and Statutory Auditors and Articles of Association amendments

From the 2008 accounting period, the appointment of Banco Desio’s BoD has been disciplined by the new procedure, assimilated in the Articles of Association, in implementation of Article 147-ter and Article 148 of the CFL.

The BoD is made up of a minimum of 8 and a maximum of 11 members, according to the decisions of the Shareholders’ Meeting, and is appointed by means of “majority” list voting which, in the event of the presentation of two or more lists of candidates, envisages the appointment of all the Directors less one from the list which obtained the greatest number of votes expressed during the Shareholders’ Meeting (majority list). One Director is appointed from the minority list which has obtained the greatest number of votes expressed after the majority list, provided that the number of votes is at least equal to half of the quorum necessary for the presentation of the lists and on condition that the minority list is not linked to the shareholders who have presented or voted for the majority list.

These lists can be presented by shareholders who are owners of ordinary shares equal to at least 2.5% of the share capital represented by ordinary shares and must be presented at least 25 days before the Shareholders’ Meeting, accompanied by:

- documentation proving the identity of the shareholders and their legitimate right to present the list;
- individual declarations accepting the candidacy and statement of compliance with the prescribed requirements, including independence requirements, as well as the *Curriculum Vitae* of the candidates;
- declarations, of the shareholders who present the minority lists, of the absence of any link with the majority shareholders.

In the event the Director appointed from the minority list leaves office, the BoD is obliged to co-opt, where possible, a non-elected candidate from the same list. In any event, during the Shareholders’ Meeting called to resolve the replacement of the Directors appointed from minority lists, the candidates can only be presented by other shareholders not linked to those who have presented and voted for the majority list at the time of BoD appointment and the appointment of the Director takes place by means of a relative majority.

With regard to the Board of Statutory Auditors, a similar procedure applies with the following changes:

- two Standing Auditors and two Alternate Auditors are appointed from the majority list;

- a Standing Auditor, who will take on the office of Chairman, and an Alternate Auditor, are appointed from the first minority list not linked to the majority shareholders, irrespective of the number of votes obtained.
- in the event that in the 25 days prior to the Shareholders' Meeting, only the majority list has been duly presented, the deadline for the filing of the minority lists is extended by 3 days and the presentation quorum is halved.

Amending the Articles of Association is exclusively reserved for the Extraordinary Shareholders' Meeting, with the exception of those cases in which the law and the Articles allow approval by the BoD (for which, as previously noted, a process was launched to amend the Articles of Association for the "category shares" discipline introduced in Law no. 120/2011). In any event, amendments to the Articles of Association are subject to prior consent from the Bank of Italy. For further information relating to the management body and the auditing body, see sections 3 and 9 below.

m) Powers pursuant to Article 2443 of the Italian Civil Code and authorisations to purchase own shares

No powers have been granted to Banco Desio's BoD for increasing the share capital as per Article 2443 of the Italian Civil Code, nor for issuing financial instruments sharing in the profits. There are no Shareholders' Meeting authorisations for the purchase of own shares in force.

2.2 COMPLIANCE WITH A CODE OF CONDUCT REGARDING CORPORATE GOVERNANCE (Article 123-bis of the CFL, section 2, letter a)

As illustrated in previous Reports, Banco Desio, despite having the special norms of the Banking Legislation and especially the aforementioned Supervisory Provisions as its main reference, complies with the Code of Conduct for Listed Companies as from its first issue by Borsa Italiana. In detail, the last edition of the Code in force from 2006 was adopted on a generalised basis, with the exception of certain criteria of a circumscribed nature that was considered not necessary or appropriate to assimilate fully.

The application of the most recent edition of the Code, issued in December 2011, was subject to approval by the Board of Directors on 20 December 2012.

For detailed information on the status of adherence to individual recommendations of the Code, refer to the attached Table 4.

As regards, specifically, the application of the Code's recommendations on remuneration of Directors and Executives with strategic responsibilities, see section 6 below.

The Code is available on the internet site www.borsaitaliana.it.

Additional information laid down by Article 123-bis, section 2 of the CFL, referring to financial disclosure (letter b), the functioning of Shareholders' Meetings and dealings with shareholders (letter c) and the composition/functioning of management and audit bodies (letter d) is provided, specifically, in sections 3, 7, 9 and 10 below.

2.3 GROUP STRUCTURE AND MANAGEMENT AND COORDINATION ACTIVITIES

Banco Desio is the Parent Company of the **Banking Group** with the same name, pursuant to Articles 60 and 61 of the CBL, which, with reference to 28 February 2012, included the following companies:

Banco Desio e della Brianza SpA	Parent bank
Banco Desio Lazio SpA	Wholly-owned subsidiary bank (100%)
Fides SpA	Finance company enrolled in the Financial Intermediaries Registry, indirectly controlled via Banco Desio Lazio (100%)
Brianfid Lux SA	Luxembourg-based investment company put into liquidation on 14 December 2012 and directly controlled (100%)
Credito Privato Commerciale SA	Swiss bank put into liquidation on 8 June 2012 and currently directly controlled (100%)
Rovere Società di Gestione SA	Luxembourg-based investment company currently directly controlled (70%) and via Banco Desio Lazio (10%), for a total holding of 80%

Banco Desio exercises management and co-ordination activities over these companies, both according to current banking supervisory provisions and in accordance with Article 2497 *et seq.* of the Italian Civil Code. In detail, as per Article 61 of the CBL, the Parent Company exercises over the Italian Subsidiary Bank (Banco Desio Lazio S.p.A), as well as over the Italian and foreign banking and financial entities included within the scope of the Banking Group (Fides SpA, Brianfid-Lux SA in liquidation, Rovere Società di Gestione SA, Credito Privato Commerciale SA in liquidation), the types of control envisaged in Bank of Italy Supervisory Provisions.

Banco Desio also directly controls Chiara Assicurazioni S.p.A., an insurance company operating in the non-life sector, excluded from the scope of the Banking Group (as it is subject to supervisory legislation on insurance companies), but which is subject to the management and co-ordination of Banco Desio, as per statutory provisions. Chiara Assicurazioni S.p.A.'s share capital is 66.66% owned by Banco Desio. The remaining shares are held by 4 Italian banks consistent in size with Banco Desio, as well as by a group operating at national level in the loan brokerage sector (via shareholdings ranging between 5% and 10%). On 20 November 2012, Banco Desio and Helvetia Group signed partnership agreements related to the sale to the latter of control of the company and, in particular, signed a preliminary sales contract dependent on receiving authorisations from the competent authorities, which would result in Chiara Assicurazioni becoming part of Helvetia Group, with a shareholding of 51%. This contract is expected to be executed in the first half of 2013, dependent on receiving authorisations from the competent authorities. Note that, as part of the aforementioned partnership agreements, the residual shareholding of 30% in Chiara Vita S.p.A. was sold to Helvetia Group and the distribution agreement was renewed.

Brianza Unione di Luigi Gavazzi & C. S.A.p.A., a holding company whose main purpose is the management of the controlling equity investment in Banco Desio, is the party which exercises control over said Bank according to applicable laws (Article 2359 of the Italian Civil Code and Article 23 of the CBL). As the result of a specific Articles of Association provision, however, it **does not exercise management and co-ordination activities** over Banco Desio and its subsidiaries, based on neither banking legislation nor statutory provisions. Brianza Unione di Luigi Gavazzi & C. S.A.p.A. does not hold any other controlling interests.

Note that Banco Desio also has a 28% shareholding in Istifid S.p.A. (trust company), which may increase up to a maximum of 31% as a result of exercising a pre-emption right on a sales transaction initiated by another shareholder. Thus, Banco Desio is currently a related majority shareholder.

Credito Privato Commerciale SA in liquidation, currently the only subsidiary with registered offices in a non-EU nation, observes the transparency conditions laid down by Article 36 of the Consob Market Regulations (Reg. 16191/2007). In detail, with reference to the Swiss subsidiary, Banco Desio: makes the accounting schedules drawn up for the purposes of the consolidated financial statements available to the general public (via a link between its website and that of the subsidiary), schedules which include at least the balance sheet and income statement; acquires documentation pertaining to the Articles of Association, the composition and powers of the corporate bodies; ensures that the subsidiary provides the auditor of the Holding Company with all the information necessary for carrying out the accounting audit as well as puts together an administrative-accounting system suitable for ensuring that the Holding Company and the auditor receive the necessary information for the preparation of the consolidated financial statements. All of these activities are carried out in consideration of liquidation procedures specific to Swiss law.

Note that the non-Italian laws to which foreign subsidiaries are subject (two of which are in liquidation) do not influence Banco Desio's corporate governance structure.

3 – BOARD OF DIRECTORS

The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFL and Articles 144-octies and 144-novies of the Issuers' Regulations.

3.1 Composition and requisites

Banco Desio's current Board of Directors is made up of 11 Directors and was appointed by the Shareholders' Meeting held on 28 April 2008, using the list voting mechanism pursuant to section 2.1.1) above. Its term expires with the Shareholders' Meeting held for the approval of the financial statements as at 31 December 2013.

The composition of the BoD, together with other information on the structure of the Management Body and Committees, is included in the attached Table 1.

On the basis of the special reference legislation for banks with listed shares, Directors must meet specific good standing and professionalism requirements, otherwise they no longer be eligible for office. Specifically, with regard to professionalism, at least three years of experience in at least one of the following areas is required:

- a) management, audit or executive activities within companies;
- b) professional activities in matters pertaining to the banking, financial, insurance sectors or functional activities in banking;
- c) a university lecturing position in the law or economics faculties;
- d) public administrative or executive functions pertaining to the lending sector or which involve the management of economic-financial resources.

With regard to the office of Chairman, the aforementioned experience must cover at least five years. For the offices of Managing Director and General Manager, specific expertise in matters pertaining to the lending sector is required, gained in positions of adequate responsibility for at least five years.

The Board of Directors is responsible for verifying that the Representatives meet the requisites within 30 days of appointment, by means of the procedure established by the Bank of Italy's Supervisory Provision. In short, the BoD checks and resolves that the requirements have been met, after consulting the Board of Statutory Auditors (who perform their own specific check¹⁰), for each individual representative, involving the abstention of the party concerned, on the basis of suitable documentation produced by said Representatives (examples:

¹⁰ With regard to the specific assessment of the Board of Statutory Auditors regarding the requisites of the Directors and the Statutory Auditors, also see section 9 below.

certificates, declarations, *curricula vitae*, affidavits or similar, declarations made by companies/bodies they worked with, etc.).

Information on the personal and professional characteristics of the Directors, as well as information on their satisfaction of the requirements described in this section, are published upon submission of the lists for the renewal of corporate offices, in compliance with governing Consob regulations. For more detail, refer to section 3.5 below. The aforementioned information is also made available on the internet site www.bancodesio.it, in the section “Organi Sociali/Documentazione Esponenti” (Corporate Bodies / Representatives’ Documentation).

3.2 Independent Directors

Of the 11 Banco Desio Directors in office, **4** (including 1* candidate from the minority list as per the law) are qualified as Independent, according to the specific provisions of Articles 147-ter and 148 of the CFL (also formalised in the Articles of Association, in compliance with the Bank of Italy clarification memo dated 27 February 2009) and the standards of the Code of Conduct. The only exception is the criteria of “nine years” permanence in the BoD which, due to the reasons indicated in attached [Table 4](#) in compliance with the resolution adopting the Code on 22 February 2007, is not, however, considered in itself to be indicative that the individual does not meet the independence requirement. The assessment of independence is subject to BoD resolution and appropriate review by the Board of Statutory Auditors, specifically examining the individual positions of the Directors on the basis of suitable documentation available to the company or disclosure made by the party concerned, who abstains from voting.

The checks are envisaged after appointment, as well as when establishing committees that require the participation of a certain number of Independent Directors, at the time of approval of this Report and/or each time the BoD considers it appropriate in relation to any situations which may change the qualification of independence relating to one or more Directors.

The Directors who currently meet the independence requisites (all in accordance with both the CFL and the Code of Conduct, with the exception of the aforementioned “nine year” criteria) are listed below:

- | | |
|--|----------------------------------|
| - Professor Marina Brogi | (appointed 26 April 2012) |
| - * Pier Antonio Cutellè (Attorney) | (“ 28 April 2008) |
| - Gerolamo Pellicanò (Attorney) | (“ 30 April 2002) |
| - Professor Lorenzo Rigodanza | (“ 28 April 2011) |

The most recent review of said requirements was carried out on 26 April 2012.

The Independent Directors, besides taking part in the Board’s work and the activities of the advisory/proposal-making Committees to which they belong (in other words, the Audit and Risk Committee and the Appointments and Remuneration Committee, of which they form the majority, as well as, the Related Party Transactions Committee, consisting solely of three of the four Independent Directors), met on 19 July 2012, to express their opinion on aspects of the “Information Flows Regulation for Corporate Bodies”. The Board members also met on 20 March 2013 to express their opinion on this Report and the Board of Directors Self-Assessment Report, in as far as they are responsible, as well as on the new Business Plan, in consideration of the role the Code attributes specifically to non-executive Directors¹¹. This **assessment**, which was positive and consistent with the

¹¹ For convenience, an extract from the Comments on Standard No. 2 of the Code is presented: Non-executive directors enhance board discussions with expertise formed outside the company, of a general strategic or specific technical nature. These skills make it possible to analyse the various subjects being discussed from different points of view and, therefore, contribute towards stimulating the dialogue which is the distinctive condition for a well thought-out and informed collective decision. The contribution of non-executive directors is particularly useful on matters where the interests of the

results of the self-assessment made by the entire Board of Directors (see section 3.6 below) is attached to this Report (**Attachment A**).

3.3 Functioning

As a rule, Banco Desio's Board of Directors meets monthly, which is more frequently than the at least bi-monthly schedule envisaged in the Articles of Association. During 2012, a total of 20 meetings were held, the majority of which scheduled at the beginning of the year. For 2013, 14 meetings have been scheduled, including 3 in the first three months. The dates of the meetings to approve periodic reports (draft financial statements and consolidated financial statements, interim and quarterly financial reports) were made public, in January, within the context of the Annual Calendar of Corporate Events, in compliance with stock exchange legislation. The publication of the Corporate Calendar falls within the sphere of a more extensive process of scheduling the Board's work for all Group companies, which sees the involvement of the same BoDs of the Parent Company and the subsidiaries, for the purpose of optimising the activities of the Corporate Bodies consistent with the general principles of efficiency and effectiveness established by both the Code of Conduct and the Bank of Italy Instruction. Internal regulations concerning the information flows between and within the Corporate Bodies aspire to the same principles and were formalised in the "Information Flows Regulation for Corporate Bodies during 2012". These regulations are aimed at ensuring a circulation of information consistent with the needs of the Directors and Statutory Auditors to act in an informed manner and, at the same time, with the need to maintain organisational safeguards to avoid the risk of the improper use of confidential information.

In accordance with the provisions of the Articles of Association and the Corporate Information Procedure, the Chairman calls the BoD meetings by means of a notice that contains the list of issues to be discussed at least 5 days in advance. The documentation relating to the matters on the agenda is made available to Directors and Statutory Auditors, as a rule, at least two hours before the time fixed for the meeting through an e-mail generally sent at least 3 days in advance (7 days for the previous meeting's minutes). These transmission terms were introduced in the Corporate Information Procedure on 29 January 2013 in light of a practice that had become standard during the second half of 2012. The timing was deemed sufficient by the Board of Directors and is generally met.

Confidentiality restrictions regarding the documentation and information subject to Board resolution are decreed – consistent with market abuse regulations – also by the Corporate Information Procedure, for Directors, Statutory Auditors, external auditors and all employees who enter into possession of potentially price sensitive documentation and information. In this context, specific provisions discipline access to the minutes of Board meetings, without prejudice to the fact that all interested parties are assured that the necessary information is made available to carry out their responsibilities in an informed manner. (For further details on this Procedure, see section 8 below).

3.4 Powers

The BoD is vested with all the powers of ordinary and extraordinary administration, except for the faculties reserved for the Shareholders' Meeting by legal and/or supervisory provisions. In addition to the functions which cannot be delegated, decisions concerning the following matters are reserved by the Articles of Association for the exclusive competence of the BoD, also in accordance with Supervisory Provisions:

executive directors and those of the shareholders may not coincide, such as the remuneration of said executive directors and the internal audit and risk management system.

- setting policies which affect the general management of the Bank's and Group's business and, within this sphere, decisions concerning strategic guidelines and transactions as well as the business and financial plans (see previous section 1.2.1);
- issuing and amending internal regulations, with the exception of amendments which merely adapt to the provisions of current legislation or to Shareholders' and Board Meeting resolutions already adopted and effective;
- establishing, transferring and closing down branches and representative offices;
- purchase, development and sale of real estate property assets other than those granted under financial lease as part of its institutional activities;
- purchase and sale of equity investments which involve changes in the Banking Group or, in any event, the undertaking or disposal of controlling or associated interests or which involve exceeding the authorisation thresholds according to the applicable provisions. The BoD has the faculty to delegate, establishing the related limits, conditions and formalities, the purchase and sale of shares of subsidiary companies listed on organised markets, provided that these operations take place: a) in observance of current regulations concerning issuers, brokers and markets; b) under the aforementioned authorisation thresholds;
- setting criteria for the management and co-ordination of the Banking Group and the other subsidiary companies, as well as criteria for executing instructions from Bank of Italy;
- appointing the General Manager, Deputy General Managers and Executives and determining the powers assigned to the same and to Middle Management;
- appointing the Heads of Internal Auditing Divisions as well as the Appointed Executive and defining the essential elements of the overall architecture of the internal audit system, subject to the favourable opinion of the Board of Statutory Auditors;
- if applicable, establishing, appointing and governing committees with proposal-making, advisory and/or co-ordination-related functions (such as, by way of example, the Appointments and Remuneration Committee and the Audit and Risk Committee).

Furthermore, as per the Articles of Association, the Board of Directors is assigned responsibility, which cannot be delegated but can be submitted to the Shareholders' Meeting, for the following possible resolutions:

- merger via incorporation of companies wholly or at least 90% owned;
- establishing and closing down of secondary offices;
- reducing share capital in the event of the withdrawal of shareholders;
- adapting the Articles of Association to peremptory legal provisions;
- transferring the company's registered offices within Italy.

The powers listed above include those provided for in the Code of Conduct and, in particular, the inherent responsibility of approving strategic, business and financial plans.

The assessment of the general organisational and accounting set-up, envisaged by the Code, falls under the exclusive responsibilities of the BoD, established by the Internal Regulations, consistent with supervisory legislation regarding the internal audit system and individual and Group risk management policies.

The Internal Regulations also reserve for the Board the specific responsibility of operational management, whose division between the BoD and the Bodies delegated by the same is expressed in terms of both business area and/or amount (as detailed in section 4 below).

In general, the structure described above also refers to the BoDs of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A), taking into account the restrictions deriving from the fact that – due to Articles of Association provisions compliant with supervisory legislation – the company (unlisted) is subject to the management and co-ordination activities of the Parent Company (listed). Note, as previously stated, that the Subsidiary Bank has less complexity in terms of both operations and size.

3.5 Appointment

Without prejudice to the description in sections 2.1.1 and 3.1 above, as part of the Code of Conduct's recommendations, Banco Desio's BoD also established in the Internal Regulations the following general criteria relating to the accumulation of the appointments by Directors¹²:

- a) establishing the number of appointments as Director or Standing Auditor held in other listed companies and/or supervised companies¹³ (excluding subsidiary, associated and investee companies directly or indirectly invested in to a significant extent by Banco Desio from this group) as 5; for such purposes, with regard to the notion of "investee companies invested in to a significant extent" reference should be made to the sector regulations (for example: 2% of the capital for listed companies, 5% for supervised banking, financial and insurance companies);
- b) incompatibility between the office of Executive Director in Banco Desio and any executive appointment covered in other listed companies and/or supervised companies (again excluding subsidiaries, associated companies and investee companies invested in to a significant extent by Banco Desio from this group);
- c) incompatibility between the office of Managing Director of Banco Desio and of Director in any other company (not belonging to Banco Desio Group) in which another Director of Banco Desio is Managing Director.

Without prejudice to the specific related provisions (with particular reference to those envisaged by law that came into effect during 2012 regarding the "interlocking ban" between competing banking, financial and insurance groups) the aforementioned general principles should not be considered compulsory and should a situation of non-compliance occur, it is not, in itself, justification for termination from office. In addition to performing a specific assessment at least annually with regard to the "interlocking ban", in compliance with the application criteria issued by Supervisory Authorities, the BoD reserves the right to evaluate any non-compliant situations on case-by-case basis, without prejudice to the principle, defined in the Code, according to which the assessment regarding opportunities to accept offices is put to the discretion of the interested parties, including in internal committees, exclusively "when they feel they are able to dedicate the time necessary to perform their duties".

The offices held by Banco Desio's Directors and Statutory Auditors in the Holding Company (Brianza Unione), in subsidiary, associated and investee companies, and in other listed and/or supervised companies, are summarised in the attached [Table 3](#).

The aforementioned limits on the accumulation of offices by Directors as per points a) and b) (considered to be non-compulsory within the terms indicated above) are similarly established in the Internal Regulations of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A). As regards point c), note that this criteria has not yet been incorporated in the Internal Regulations of Banco Desio Lazio SpA, given the Bank's size and the fact that there currently is no Managing Director.

3.6 Self-Assessment

On 11 January 2012, Bank of Italy issued a Note regarding the "Application of supervisory provisions regarding the organisation and corporate governance of banks", in which indications were provided regarding the self-assessment process that the Board of Directors is required to carry out annually.

On 23 February 2012, the Board approved the "Guidelines for periodic self-assessment", in order to govern the

¹² Note that for auditors' offices, specific regulatory norms are in force with regard the number of offices which can be held (Article 144-duodecies of the Consob Issuers' Regulations).

¹³ In this context, "supervised companies" are understood to be: banks, insurance companies, stock brokerage companies, asset management companies and finance companies enrolled in the special register as per Article 107 of the CBL (Italian).

related process, specifically identifying the methodologies to be used (mainly based on each Director compiling a specific questionnaire) and the profiles subject to analysis, at an aggregate level, regarding the composition (professional skills, independence, etc.) as well as functioning (operating practices, information flows, etc.) of the Board and its internal Committees.

On 20 March 2012, the Board of Directors resolved the self-assessment for 2011, determining that, for all analysed areas in reference to the Board and its internal Committees (quantitative composition, professional skills of the members, functioning, information flows), an overall positive opinion can be formulated.

On 5 March 2013, the self-assessment process for 2013 was launched, using the aforementioned “Guidelines” as a reference and the same methodologies of analysis, identifying the Appointments and Remuneration Committee and the Independent Directors as parties responsible for the initial activities for the Board of Directors to resolve on the self-assessment (the latter as part of the annual meeting dedicated to reviewing the Annual Corporate Governance Report).

On 20 March 2013, the Board of Directors resolved the self-assessment for 2012, determining that, for all analysed areas in reference to the Board and its internal Committees (quantitative composition, professional skills of the members, functioning, information flows), an overall positive opinion can be formulated. This opinion takes into account the implementation of action items resulting from the previous self-assessment with particular reference to:

- preparing the aforementioned Information Flows Regulation for Corporate Bodies,
- refining the practices and procedures for distributing Board documentation,
- optimising certain aspects of the system of powers,
- planning training and continuing professional education courses for Directors, and
- identifying a “theoretical profile” for Directors, based on the preparation of the relative *curricula* upon re-nomination,

which represented an opportunity to perfect a procedural and information structure that the Board, in concluding this Report, deemed adequate with respect to the management needs of the Bank and Group.

With reference to the **theoretical profile**, the areas of competency taken into consideration for the self-assessment are as follows:

1. **knowledge of the banking business** (e.g., credit, finance, payment systems, securities intermediation, customer service, bancassurance), acquired through several years of experience as a company representative with credit or financial institutions or through the exercise of professional activities or as a university lecturer in economic matters;
2. **knowledge of the dynamics of the economic-financial system** (e.g., national and international markets, system forecast models), acquired through several years of experience as a company representative, or through exercising entrepreneurial or professional activities, or as a university lecturer in economic matters, or through roles of responsibility with entities, institutions, foundations or associations;
3. **knowledge of the geographic markets** (of the Bank and Group) and the related socio-economic and market characteristics, acquired through several years of experience as a company representative, or through exercising entrepreneurial or professional activities, or through roles of responsibility with entities, institutions, foundations or associations in the specific geographic markets;
4. **knowledge of sector regulation** (e.g., banking, finance, tax), acquired through several years of experience as a company representative or as a manager of specific departments (e.g., audit, compliance, legal) in credit

or financial institutions, or through exercising entrepreneurial or professional activities, or as a university lecturer in economic/legal matters, or through roles of responsibility with entities, institutions, foundations or associations;

5. **knowledge of internal audit systems and risk management and control methodologies** (e.g., audit functions, credit risk, market risk), acquired through several years of experience as a company representative or as a manager of specific departments (e.g., audit, compliance, risk management) within a company, or through exercising entrepreneurial or professional activities, or as a university lecturer in economic/legal matters;
6. **knowledge of corporate governance issues** and business management processes (e.g., financial statements, legal, group direction and co-ordination, management control, conflicts of interest, relationships with stakeholders, management of key resources, remuneration), acquired through responsibility for specific departments in companies, or through exercising entrepreneurial or professional activities, or as a university lecturer in economic/legal matters;
7. **knowledge of organisational structure and information systems** (e.g., human resources, IT, outsourcing policies, business continuity) acquired through several years of experience as a company representative, or as a manager of specific departments (e.g., human resources, IT) within companies, or through exercising entrepreneurial or professional activities, or as a university lecturer in technical/economic matters;
8. **knowledge of the structure, governance and organisation**, specifically, of Banco Desio Group and its components.

As part of the self-assessment process, consideration was given to the number of years in office (from the first appointment) of each member of the Board of Directors, as summarised below:

NAME	PRIMARY ACTIVITY	APPOINTMENT DATE INDIVIDUAL OFFICE	TOTAL SENIORITY
Agostino GAVAZZI - Director - Deputy Chairman - Chairman	Company Director	05/05/1983 10/04/1992 30/04/2002	30 years
Stefano LADO - Director - Deputy Chairman	Attorney	23/04/1993 28/04/2008	20 years
Tommaso CARTONE - Managing Director	Company Director	20/06/2012	1 year
Guido POZZOLI - Standing Auditor - Chairman of the Board of Statutory Auditors - Deputy Chairman - Director	Chartered Accountant	17/12/1973 29/04/1999 30/04/2002 28/04/2011	40 years (of which 11 as Director)
Luigi GAVAZZI - Director	Company Director	06/04/1981	32 years
Paolo GAVAZZI - Director	Freelance Professional	28/04/1997	16 years
Egidio GAVAZZI - Director	Company Director	28/04/2008	5 years

Pier Antonio CUTELLE' - Director	Company Director	28/04/2008	5 years
Marina BROGI - Director	University lecturer	26/04/2012	1 year
Gerolamo PELLICANO' - Director	Attorney	30/04/2002	11 years
Lorenzo RIGODANZA - Director	University lecturer	28/04/2011	2 years
AVERAGE SENIORITY OF DIRECTORS			12 ears

3.7 Training programmes

As part of initiatives aimed at continuing professional education in the sector in which Banco Desio operates, in business dynamics and their evolution, as well as the reference regulatory framework, the following initiatives were either carried out or, in any case, planned, with a focus on issues related to the banking application of Legislative Decree no. 231/2001, as regards administrative liability of companies and entities:

February 2012

- a training session was held on “Administrative liability according to Legislative Decree no. 231/2001: substantial implementation of organisational models”, led by specialised instructors from a leading business school;

May 2013

- a new training session is scheduled, with a primary focus on corporate crimes and, specifically, on those recently included in the scope of Legislative Decree no. 231/2001 and Law no. 190/2012 related to corruption between private individuals (Article 2635 of the Italian Civil Code).

The Chairman will ensure that additional initiatives will be planned during 2013 related to other governance, management and/or control issues that are of interest to Directors, including any that may be requested by the Directors themselves.

3.8 Succession plans

Banco Desio does not have a succession plan for Executive Directors in the event they leave office prior to the end of their term. However, in such cases, the relative legal and statutory provisions shall apply.

4 - SYSTEM OF POWERS AND AUTHORITY

4.1 General outlines

Given the peculiar features of banking activities, within the sphere of the governance and internal audit system, the system of powers and authority takes on particular importance, disciplined on a systematic basis by the Articles of Association and, in a more detailed manner, by the Internal Regulations. This system is supplemented, at technical-operating level, with internal regulations (in particular: Consolidated Codes) and, from a representative point of view, in the so-called “signatory powers” (in particular: special powers of attorney).

This system has been structured on the basis of criteria consistent with the principle that the main decisions are reserved for the Board of Directors, (in other words, those which the Bank of Italy Instruction summarises in the policy and supervision functions of corporate management) and the periodic reporting to said BoD by executive Bodies and Parties who are primarily delegated the function of managing, or rather, implementing the policies resolved by the BoD as it carries out its role of strategic supervision: **Executive Committee, Managing Director and General Manager**. The latter represents the apex of the internal structure and, as such, participates in the management function, and in the BoD and Executive Committee meetings, and also has the task of executing the resolutions adopted by said Bodies.

The layout of the operating powers detailed in the Internal Regulations can be summarised as follows.

The delegated Bodies and Parties, in addition to the general powers for their role, have different operating powers in various areas related to current operations, in particular, with regards to credit, commercial, legal and organisational issues, in line with their respective roles, as specified below.

4.2 Chairman - Executive Committee – Managing Director – General Manager

The Chairman, who is assigned - in compliance with the indications in the Bank of Italy Instruction – a co-ordination and guarantee role for the purpose of the due functioning of the Board of Directors and the Shareholders’ Meeting, and the Deputy Chairman who replaces the former in the event of his absence or unavailability, are not assigned operating powers. They and the Managing Director are assigned the representation of the Company in dealings with third parties and before the legal authorities on the basis of the Articles of Association, acting separately.

Pursuant to the Articles of Association, the Chairman can adopt, for reasons of particular urgency, decisions which are the responsibility of the BoD or the Executive Committee (provided that they are not reserved by law or the Articles of Association for the exclusive competence of these bodies), with the obligation to promptly disclose the same to the BoD during the next opportune meeting. This is a procedure of an exceptional nature.

The Chairman is a high-profile representative (General Partner) of the Holding Company “Brianza Unione” (see Table 3, attached). As previously mentioned in section 1.2, the Chairman does not have operations powers and does not carry out operational functions, not even *de facto*. The same concept applies to the Deputy Chairman.

Given the increasing number of meetings and the broadening of responsibilities of the Executive Committee during 2012, of which the Chairman and Deputy Chairman are members based on the Articles of Association, the Board of Directors has deemed it appropriate to consider these individuals as Executive Directors, and therefore, in the same meeting held to approve this Report, changed the

composition of the Audit and Risk Committee and the Appointments and Remuneration Committee (see section 13 below).

The **Executive Committee** (appointed annually and currently consisting of 5 Directors, including, as per the Articles of Association, the Chairman, Deputy Chairman and the Managing Director) is granted operations management powers, with set limits on amounts, for matters not reserved exclusively for the BoD. As noted, these powers were expanded during 2012, both in terms of issues and amounts, as part of the actions taken to optimise the system of powers.

Pursuant to the Articles of Association, for particularly urgent reasons, the Executive Committee may also adopt decisions which are the responsibility of the Board of Directors, provided that they are not reserved by law exclusively for the latter. The Board itself must be informed of these decisions during the first subsequent meeting.

In 2012, the Executive Committee met 14 times, compared to the 4 meetings held in 2011.

The **Managing Director** presents the Management Body with projects, objectives and strategies for the growth of the Bank and the Group, co-ordinates ordinary operations and oversees the management, co-ordination and control of the Group, according to the standards established by the Board.

The Managing Director is granted powers, within set limits that are lower than those of the Executive Committee, in certain matters of particular relevance for the governance of the Bank and the Group, consistent with the role of “Director responsible for the risk management and audit system” that was assigned to him by the Board on 27 September 2012.

For example, the Managing Director is also tasked with ensuring – at an overall level – the functioning of the internal audit system, supervision of compliance risk, implementation of the process for assessing capital adequacy (“ICAAP”) and overseeing the activities associated with internal, inter-company and external corporate information, with the support of the specific divisions (Internal Auditing; Risk Management and Compliance, Planning, Management and Equity Investments Control – Investor Relations, and Legal & Corporate Affairs).

The **General Manager** executes the resolutions adopted by the BoD, the Executive Committee and the Managing Director and is placed in charge of the management of personnel, the organisation and functioning of company structures and carrying out current business affairs, according to the general policies established by the BoD and the Managing Director. Within the sphere of operational management, the General Manager has autonomous powers within amount limits lower than those of the Managing Director and/or the Executive Committee. In certain areas, these powers are exercised, above set thresholds, in agreement with the Managing Director.

The executive Bodies and Parties inform the BoD and the Board of Statutory Auditors, according to the provisions of the Information Flows Regulation for Corporate Bodies, with regard to activities carried out within the sphere of the assigned powers and the performance of Banco Desio and subsidiary companies.

Detailed indications on the amounts representative of the limits of the powers assigned are not provided, because the authorisation standards differ according to the matters dealt with.

Given the system of powers described above, even though the Managing Director (Tommaso Cartone) is the only individual with an executive role due to the operations powers assigned to him, the **Chairman (Agostino Gavazzi), Deputy Chairman (Stefano Lado) and Directors Egidio Gavazzi and Guido Pozzoli are also**

considered executives, as they are members of the Executive Committee and in consideration of the frequency of meetings and the expansion of its responsibilities. For the sake of thoroughness, note that:

- no Director (other than the Managing Director) holds executive offices within Banco Desio, nor has been appointed to oversee specific areas of business operations ensuring a steadfast presence in said company and/or acquiring information about the operating structures and/or participating in committee meetings, pursuant to the subsequent section 4.3.
- no Director holds similar roles in subsidiaries or the Holding Company;
- the Managing Director does not hold administrative roles in subsidiaries;
- other Directors hold administrative offices in the Holding Company and/or subsidiaries.

4.3 Technical-operating committees

Besides the Executive Committee and the three Advisory/Proposal-making Committees discussed above, at the technical-operating level the BoD set up a Credit Facilities Committee and a Finance Committee.

The Credit Facilities Committee is made up of the General Manager, the Deputy General Manager and the heads of the Loan Division and other relevant corporate divisions. The Credit Facilities Committee is responsible for resolving/discussing the following issues, all of which are inherent in granting loans:

- credit facilities which fall under their responsibility within the powers assigned by the BoD, in relation to which the Credit Facilities Committee avails of its independent authority for amounts lower than those of the Executive Committee;
- credit facilities for amounts which are the responsibility of the BoD or the EC, on which the Committee is required to provide opinions in advance;
- credit facilities for amounts which are the responsibility of the appointed parties (GM, Deputy GM, etc.), if said parties believe a collective appraisal of the credit request is appropriate;
- consent to any resolutions pursuant to Article 136, section 2 of the CBL adopted by the BoD of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A);
- prior binding opinion on credit facilities which are the responsibility of senior management of the Italian Subsidiary Bank, overseeing Group policies regarding lending risks.

The Managing Director may participate in Credit Facilities Committee meetings (without voting rights but with the right to express binding opinions on the presentation to the Executive Committee or the Board of Directors of loan proposals approved during the Committee's discussions).

The Finance Committee is made up of the Managing Director, General Manager, Deputy General Manager and the heads of the Finance Division and of other relevant corporate divisions. As a rule, the Finance Committee meets once a month, supporting the Executive Parties indicated above, mainly with regard to the following activities, in reference to the respective powers:

- monitoring market performance;
- monitoring trends in asset management products;
- asset allocation decisions;
- organisational measures in the finance department.

As regards the Italian Subsidiary Bank, (**Banco Desio Lazio S.p.A**), the system of powers is considerably simplified due to the fact that it is much less complex in terms of operations and size, as well as the Parent

Company's activities of management and co-ordination, which includes outsourcing services of various business areas. This system is essentially characterised by the presence of:

- a BoD consisting of 7 Directors (as mentioned previously, these mainly involve Representatives of the Parent Company). This Body exercises operating powers in a systematic manner mainly with regard to disbursing credit, employing personnel and other matters in relation to which it is considered appropriate to more fully limit the authority of the appointed Parties. The Board includes the role of Independent Director as introduced by the Articles of Association, based on requisites similar to those established by the law for Statutory Auditors. At present, there is an Independent Director who is responsible for providing opinions as envisaged in the Internal Procedure for Transactions with Associated Parties and Article 136 of the CBL of the Parent Company (as implemented by Banco Desio with the specific "Addendum"), in compliance with prudential Supervisory Provisions on risk assets and conflicts of interest with associated parties, issued by Bank of Italy in December 2011 and pursuant to Article 53 of the CBL.
- a Director whose assigned operating powers are substantially restricted to powers related to commercial development;
- a General Manager charged with executing the BoD's resolutions, as well as handling business affairs and personnel. With respect to the Executive Parties of the Parent Company, this Party has proportionally reduced operations autonomy, mainly with regard to: disbursing loans, rates and conditions; legal action taken/brought; current expenditures and extraordinary charges.

The Chairman of Banco Desio Lazio SpA, who is assigned - in compliance with the Bank of Italy Instruction – a co-ordination and guarantee role for the purpose of the due functioning of the Board of Directors and the Shareholders' Meeting, and the Deputy Chairman, who replaces the former in the event of his absence or unavailability, are not assigned operating powers. They are assigned the representation of the Company in dealings with third parties and before the legal authorities on the basis of the Articles of Association, acting separately.

Pursuant to the Articles of Association, the Chairman of Banco Desio Lazio SpA can adopt, for reasons of particular urgency, decisions which are the responsibility of the BoD (provided that they are not reserved exclusively for this Body by law or the Articles of Association), with the obligation to promptly disclose the same to the BoD during the next opportune meeting. This is a procedure of an exceptional nature.

As already mentioned in the previous section 1.2, the Chairman of Banco Desio Lazio SpA has a non-executive role and does not carry out operational functions, not even *de facto*.

The Chairman of Banco Desio Lazio SpA is a high-profile representative (Deputy Chairman) of the Parent Company.

The General Manager or the Managing Director informs the BoD and the Board of Statutory Auditors regarding activities performed under the powers assigned and on the Bank's performance, according to the Parent Company's Information Flows Regulation for Corporate Bodies (as implemented by Banco Desio Lazio).

The frequency of BoD meetings and the level of involvement and participation of all Directors ensures that each member has adequate knowledge and effectively performs his/her roles.

All of the information flows received by the BoD during 2012 allowed it to make adequate assessments of the organisational and administrative/accounting structure as well as the general operations performance of the Bank and Group, with particular reference to risk governance issues.

5 – CONFLICTS OF INTEREST - TRANSACTIONS WITH RELATED PARTIES, CONNECTED PARTIES (COLLECTIVELY REFERRED TO AS “ASSOCIATED PARTIES”) AND ARTICLE 136 OF THE CFL

The subject of conflicts of interest with reference to the various spheres of corporate operations (disbursement of credit, investment services, etc.) is subject to a prudent approach adopted by the Italian Group Banks. At present, the relevant main internal regulations for this matter are as follows:

- the Parent Company’s Internal Procedure for Transactions with Associated Parties and Article 136 of the CBL (as implemented by Banco Desio Lazio with a specific “Addendum”), in compliance with prudential Supervisory Provisions on risk assets and conflicts of interests with associated parties issued by Bank of Italy in December 2011, pursuant to Article 53 of the CBL;
- the “Policy” containing the General Rules for handling conflicts of interest regarding investment services, approved by the BoD during the second half of 2007, at the time of assimilation of the MIFID Directive and reviewed during the second half of 2009, for the purpose of further enhancing the safeguards on these conflicts, whose mapping has been updated in the meantime. This Policy was merged with a specific Consolidated Law during 2012.

Internal Procedure for Transactions with Associated Parties and Article 136 of the CBL

This Internal Procedure, adopted pursuant to Article 2391-bis of the Italian Civil Code and Article 53 of the CBL, is primarily characterised by the existence of a Related Party Transactions Committee, with regard to decision-making processes.

This advisory body is composed of all 4 Independent Directors in office and entitled to receive information and/or issue opinions, which are binding in certain cases, on transactions with related parties, as set forth, based on the quantitative and qualitative criteria established by the Consob Regulation and relevant Bank of Italy Provisions, in the Internal Procedure which – in addition to the Committee’s methods of operating– governs the various types of total or partial exceptions in relation to small amounts or ordinary transactions, as well as the Group counterpart to the transaction (in the absence of significant interests of other related parties).

In 2012, the Related Party Transactions Committee met 6 times, as in 2011, to collect information and/or issue opinions mainly with regard to recurring inter-company transactions. On 19 June 2012, the Committee issued its opinion regarding the updating of the Internal Procedure in compliance with Bank of Italy Provisions. The Committee meeting minutes are duly recorded in the specific register.

An independent annual expenditure budget of Euro 25,000.00 was assigned to the Committee for 2012 (and reconfirmed for 2013).

For more information, refer to the entire Internal Procedure published, in compliance with said Regulations, on the internet site www.bancodesio.it – in the section “governo societario / operazioni con parti correlate” (Corporate Governance/Transactions with Related Parties).

For a summary of these transactions relating to 2012, resolved in the aforementioned Internal Procedure, reference should be made to the financial statement disclosure and especially Part H of the Notes to the Consolidated Financial Statements.

The “Policy” containing the General Rules for handling Conflicts of Interest regarding investment services has the aim of illustrating the guidelines which the Group has adopted for handling conflicts of interest when providing investment services and activities, related services or a combination of these services, following the endorsement in the Italian legal system of Directive No. 2004/39/EC (hereinafter also referred to as “MiFID”).

The provisions contained in the Policy were approved by the Parent Company’s Board of Directors, acknowledged by the Boards of Directors of the Italian Group Banks and transmitted to the investment companies belonging to the Group, which are subject to said provisions and can formulate additions and amendments which take into account any unique characteristics of their business: these amendments will have to be examined in advance by the Parent Company.

The Parent Company ensures the consistency of the subsidiaries’ decisions with the Group’s general approaches and policies regarding conflicts of interest, without prejudice to the autonomy of the corporate bodies of the individual Group Banks.

The Policy has the aim of:

- identifying the circumstances which generate or could generate a conflict of interest that may seriously damage the interests of one or more customers;
- developing procedures and organisational measures to handle these conflicts of interest;
- specifying that, when the measures adopted for handling conflicts of interest are not sufficient to ensure, with reasonable certainty, that the risk of damaging customers’ interests is avoided, the conflicts are subject to specific disclosure to customers.

The contents of the Policy are reviewed annually, or when significant circumstances occur which require an amendment and/or addition, so that:

- the identification of the circumstances which generate or could generate conflicts of interest is constantly updated, also to take into account changes in the Group’s organisational set-up and the services provided by the same;
- solutions identified to mitigate observed conflicts of interest are safeguarded to the greatest extent possible.

These activities are managed by the Parent Company’s Compliance Department which avails itself, where appropriate, of the support of the Parent Company’s Legal and Organisational Divisions.

On the basis of the Group’s structure and the services provided by the Parent Company and the Group companies, the following types of conflicts of interest have been identified:

- conflicts of interest within a service;
- conflicts of interest associated with the joint provision of several investment services;
- conflicts of interest associated with the provision of investment services concerning financial instruments and/or products issued by Group companies;
- conflicts of interest associated with holding significant equity investments in issuers of financial instruments;
- conflicts of interest associated with the existence of shareholders’ agreements in issuers of financial instruments;

- conflicts of interest associated with the provision of investment services concerning financial instruments and/or products of companies which have a significant equity investment in Group companies;
- conflicts of interest deriving from assuming offices in other companies which may lead to a conflict of interest;
- conflicts of interest deriving from membership in organised markets or the MTF in the capacity as specialist;
- conflicts of interest due to receiving incentives or commissions.

The Parent Company has established and regularly updates a register which includes - noting the types of investment and related services concerned - the situations in which a conflict of interest has arisen, or, in the case of a service or activity underway, where a conflict of interest may emerge, which risks seriously damaging the interests of one or more customers.

This register is maintained and updated by the Compliance Department and other Parent Company departments according to the Consolidated Law on Conflicts of Interest, including on behalf of Group Banks.

Subject to assessment by the Parent Company, if the management measures adopted are unsuitable for ensuring, with reasonable certainty, that for cases of conflicts of interest, the risk of damaging the customers' interests is avoided, the customer will be informed, on a permanent medium, in a sufficiently detailed manner so as to permit the customer to make an informed decision on the investment or related services requested, taking into account the context in which the conflict of interest arises.

6 – REMUNERATION AND INCENTIVE MECHANISMS - APPOINTMENTS AND REMUNERATION COMMITTEE

Criteria adopted to compensate and incentivise Group management are in line with general principles correlating these emoluments with the economic results achieved and the coherence with strategies and risk parameterisation, so as to avoid producing incentives in conflict with the interests of the Company over the long-term, as indicated in the Bank of Italy's Supervisory Provisions of 30 March 2011 on remuneration and incentive policies and practices in bank and banking groups.

The remuneration of Banco Desio's Managing Director, General Manager, and Executives with strategic responsibilities consists of a fixed portion and a variable portion, divided into a cash component and a stock grant, calculated in compliance with Supervisory Provisions, as more fully explained in the Remuneration Report.

For updates on the current residual plan on shares in the subsidiary Fides SpA, refer to the financial statement disclosure and, particularly, Part I of the Notes to the Consolidated Financial Statements.

With regard to the Parent Company's BoD, the Articles of Association envisage that the Ordinary Shareholders' Meeting determines the overall fee for the Directors other than the Chairman, Deputy Chairmen and Managing Director. The BoD, having consulted the Board of Statutory Auditors, contributes to the determination of the fees of the latter, as well as the division between the other Directors of the overall fee established by the Shareholders' Meeting. The division criteria also takes into account appointments within the BoD and membership in the various Committees (including the offices as Secretary).

For the BoD of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A), there is a mechanism with similar guidelines to those adopted by the Parent Company. Note that no Committees have been established within the Board of Directors of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A).

The Appointments and Remuneration Committee currently consists of 1 Executive Director (who became an executive as a result of membership in the Executive Committee, the change in frequency of the Committee's meetings and the expanded responsibilities assigned to said Director, as previously noted in section 4.2) and 2 Independent Directors (in addition to the previous schedule, refer to Table 1 attached to this Report). In the same meeting held to approve this report, the BoD revised the composition of the Appointments and Remuneration Committee (see section 13 below).

The Chairman of the Board of Statutory Auditors participates in the Committee's meetings, and other Alternate Auditors may also participate. The Managing Director participates with regard to appointments, remuneration and other actions involving parties included in the perimeter defined by the Consolidated Remuneration and Incentive System Code. The General Manager, Deputy General Manager and others who are in charge of relevant business areas (including internal audit) may be invited to participate in relation to the issues described above, as well as other employees/collaborators/consultants, depending upon the specific issues to be discussed. This Committee is an advisory/proposal-making body with the main task of: i) formulating opinions and/or proposals on the appointment and remuneration of Directors for the BoD in cases in which the decision is the responsibility of a Board Committee of the Parent Company and/or Shareholders' Meeting/Board Committee of the subsidiaries, specifically, decisions concerning Directors who have been appointed to certain offices and/or granted operating powers, as well as the General Manager and the Deputy General Managers(s), as well as ii) formulating opinions and/or proposals for the BoD regarding general policies and specific criteria for management remuneration, including at the Group level and any stock-based incentive plans.

As part of the above responsibilities, the Committee is involved in defining, assessing and monitoring retribution and incentive systems, in compliance with Supervisory Provisions.

To formulate its opinions on the above matters, the Committee met 8 times in 2012, as in 2011, and in some of the meetings, issues associated with implementing the Group incentive system, adopted in 2011, was discussed.

On 19 June 2012, the Committee expressed its opinion on the co-opting of the Managing Director, providing a thorough assessment of the relative professional profile, in light of the criteria indicated in the Self-Assessment Report (see section 3.6 above). The assessment resulted in the decision that the candidate was adequate, in relation to the Bank's operating needs, as his profile includes detailed work experience in credit, finance, securities and insurance matters, attained through high-level positions with leading institutions and listed companies over more than a decade.

The Committee meeting minutes are duly recorded in the specific register.

An independent annual expenditure budget of Euro 25,000.00 was assigned to the Committee for 2012 (and reconfirmed for 2013).

If the Committee used consultancy services to complete his duties, it must verify that the consultant is not involved in any situations that may compromise his/her independence.

The Articles of Association of the Italian Group Banks also envisage that the Ordinary Shareholders' Meeting, in addition to establishing the above fees, approves the remuneration policies, including plans based on financial instruments. The Shareholders' Meeting is ensured adequate disclosure on the implementation of the remuneration policies.

For additional information on remuneration and incentive policies, refer to the Remuneration Report.

As regards the application of the Code's recommendations on remuneration for Directors and Executives with strategic responsibilities, in reference to the 2011-2013 Stock Grant Plan for Group management, refer to the attached Table 5.

7 – INTERNAL AUDIT SYSTEM – AUDIT AND RISK COMMITTEE - EXECUTIVE APPOINTED TO DRAW UP THE ACCOUNTING DOCUMENTS – FINANCIAL DISCLOSURE PROCESS

The information in this section has also been provided in accordance with Article 123-bis, section 2, letter b of the CFL.

Banks are subject to regulations on the **internal audit system** established, in particular, by supervisory regulations on banking activities and the provision of investment services, issued by the Bank of Italy and Consob implementing the CBL and the CFL. As these banks are “public interest entities”, they are also subject to new regulations introduced in 2010 by Legislative Decree no. 39, mentioned in section 1.2 above.

This system, more fully described in the same section 1.2, features a complex structure which involves all the corporate levels, with specific duties reserved for the Board of Directors, the Board of Statutory Auditors, the Managing Director, the General Manager and the individual in charge of internal audit, represented by the *tempore* Head of the Internal Auditing Department (Mr. Enrico Maria Redaelli, appointed by the Board on 25 October 2012 with the favourable opinion of the Audit and Risk Committee and the Board of Statutory Auditors). During 2012 and as part of actions taken to strengthen the internal audit system, this Department was structured to report directly to the Board. The audit and reporting activities carried out by this Department are consistent with the specific recommendations of the Code of Conduct.

The Parent Company outsources the functions of internal audit, risk management and compliance for Banco Desio Lazio SpA and Fides SpA. For the latter, the risk management and compliance departments were centralised at the beginning of 2013 to further strength its oversight.

There are established methods of co-ordination between the Bodies and Parties involved in the internal audit and risk management system, which consist primarily of identifying meeting participants and information flows between said Bodies and Parties.

* * *

Several years ago, the BoD established an Internal Audit Committee, which during the course of 2012 became the **Audit and Risk Committee**. Currently, it must be made up of between 3 and 5 “non-executive” Directors, the majority of which Independent, from among whom the Committee Chairman is chosen.

As shown in Table 1, the Committee currently consists of 1 Executive Director (who became an executive as a result of membership in the Executive Committee, the change in frequency of the Committee's meetings and the expanded responsibilities assigned to said Director, as previously noted in section 4.2) and 2 Independent Directors, including the Committee Chairman. In the same meeting held to approve this report, the BoD revised the composition of the Audit and Risk Committee (see section 13 below). The BoD verified that at least one member had specific experience in accounting and financial matters, identified as the Committee Chairman (Prof. Lorenzo Rigodanza).

The Chairman of the Board of Statutory Auditors, or a Standing Auditor designated by the Chairman, participates in Committee meetings, and, in any event, the other Standing Auditors may also participate. In addition, the Managing Director, in his role as “Director responsible for the risk management and control system” participates. The General Manager, Deputy General Manager and the heads of internal audit, risk management and compliance departments may also be invited to participate, as well as other employees/collaborators/consultants, depending upon the specific issues to be discussed.

The Audit and Risk Committee, as an internal Board committee, performs advisory/proposal-making functions and assists the BoD in its activities of supervising the proper functioning of the internal audit and risk management system, as well as assessment of the proper use of accounting standards.

The Committee reports to the BoD on activities performed and the adequacy of the internal audit and risk

management system through specific reports prepared every six months. Decisions taken regarding issues that fall under the BoD's responsibilities are communicated, including verbally, at the next opportune meeting. During 2012, the Committee met 11 times, compared to 9 in 2011, in its role as advisory/proposal-making body for issues regarding the internal audit and risk management. Generally, the participants in the meeting, other than the Committee members, included the Chairman of the Board of Statutory Auditors and the Head of the Internal Auditing Department, as well as the managers of the Risk Management and Compliance departments. Depending on the issues to be discussed, other Auditors, the Managing Director, the General Manager, other Directors and/or employees, as well as external consultants participated in individual meetings. Specifically, in addition to the regular half-year report to the BoD on activities performed by the Committee, the primary issues addressed were in relation to the periodic Plans and results of the Internal Audit Department. After the Committee was transformed into the Audit and Risk Committee, it also reviewed the "Risk Appetite Policy" prior to the Board of Director's approval in 2012 as well as the 2013 Budget, for those aspects inherent in risk management. The Committee meeting minutes are duly recorded in the specific register. An independent annual expenditure budget of Euro 50,000.00 was assigned to the Committee for 2012 (and reconfirmed for 2013).

* * *

During 2012, a comprehensive project was conducted to fully revise the **Group Organisational Model pursuant to Legislative Decree no. 231/2001**, as well as to customise said model for each Group Company. Concluded in July 2012, this project included updating the List of Offences and implementing behavioural "protocols" to prevent crimes that would entail administrative liability for the Company. Following additional updates to Legislative Decree no. 231/2001 for offences related to "hiring foreign individuals with improper documentation" (Legislative Decree no. 109/2012, effective 9 August 2012) and "corruption between private individuals" (Law no. 190/2012, effective 28 November 2012), another project to update the Model was launched that is still underway.

On 27 September 2012, as part of actions taken to optimise the internal audit system structure, the Internal Audit Committee was transformed into the Audit and Risk Committee and, at the same time, the Board of Statutory Auditors assumed the functions of SB 231, in accordance with Article 6, section 4-bis of Legislative Decree no. 231/2001, introduced by Article 14, section 12 of Law no 183 of 12 November 2011 (so-called "2012 Stability Law"), as well as a specific instruction in the Code of Conduct. In subsequent months, consistent with this set-up, the Boards of Statutory Auditors of Banco Desio Lazio SpA and Fides SpA assumed the functions of SB 231, where the previous SB 231 consisted of an Independent Director and an Executive from the Parent Company's Internal Auditing Department.

The powers and functioning of the Board of Statutory Auditors in its role as Supervisory Body pursuant to Legislative Decree no. 231/2001 (hereinafter, SB 231) were described in detail in the OMCM 231 and in a specific Regulation attached therein. The SB 231 is envisaged to have independent powers of initiative and control, supported by the Internal Auditing Department in supervisory activities, and must report every six months to the Board of Directors on activities performed. The SB 231 currently has an independent budget for expenses of Euro 50,000.00 for 2012 (reconfirmed for 2013), in relation to other actions associated with the project to review the Organisational Model 231 as explained above, with particular reference to training activities.

* * *

In relation to existing risk management and internal audit systems in the **financial disclosure process, consolidated or otherwise**, the Consolidated Law of the **Appointed Executive** is in force, which describes the “powers and means” of said pro-tempore Executive (Mr. Piercamillo Secchi), in compliance with the legal provisions (in particular Article 154-bis of the CFL). As such, a series of disclosure, audit and intervention powers have been assigned to the Appointed Executive, which essentially involve:

- the possibility of receiving data/information from specific corporate divisions; the right to carry out audits autonomously and through the Internal Auditing Department, as well as the right to request organisational changes in administrative-accounting activities;
- the possibility of participating in Board meetings which deal with administrative-accounting aspects and proposing policy and co-ordination actions vis-à-vis Group Companies (such as the appointment of his own Contact Persons in these Companies);
- the recognition of the financial autonomy of said Appointed Executive through the management of a specific annual expenditure budget.

The Articles of Association state that the BoD appoints the Appointed Executive, subject to the favourable opinion of the Board of Statutory Auditors and mandate the integrity and professional standing requirements, consistent with the current legislation for bank representatives (in particular, this party must possess specific expertise with regard to administrative-accounting matters gained, in a period of no less than three years, in positions of operating responsibility in the Company, the Group or other comparable companies or entities in terms of activities and organisational structure).

The Appointed Executive is currently on the staff of the Managing Director and is supported directly by the Administration Division, maintaining constant supervision over the financial reporting process, to ensure the reliability and integrity of the accounting and operating information, consolidated or otherwise, with particular reference to the so-called “key accounts”.

With regard to the risk management and internal audit system in relation to the financial disclosure process, the BoD defined a specific risk control model relating to financial disclosure (“Financial Disclosure Control Model”), which is an integral part of the internal audit system at Group level. As indicated below, the main responsibilities of this model are assigned to the Appointed Executive.

The Control Model allows for the fulfilment of regulatory obligations relating to the adoption of a risk management and internal audit system for the financial disclosure process.

In this regard, the set of tasks aimed at identifying and assessing risks and controls on financial disclosure are part of the more general management process of the Control Model, which is broken down into the following phases:

- planning;
- implementation;
- assessment;
- reporting.

Based on the Model’s scope, which applies to the entire Group, the tasks in each phase are carried out for both the Parent Company Banco Desio and, as far as compatible, for the Group Companies included in the scope of consolidation.

Phases in the Risk Management and Internal Audit System for the financial disclosure process

Within operations, Banco Desio has identified and defined the following types of financial disclosure risk, in line with its risk mapping:

- “risk of unintentional errors”: the risk of material errors in the financial statements from actions unintentionally committed or omitted, resulting from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events;
- “risk of fraud”: the risk of material errors in the financial statements resulting from an intentional act, committed in order to gain unjust or illegal advantages through false financial disclosure.

In addition, criteria have been established for identifying the specific significant company components, items and accounting schedules on which to focus the activities of planning, development and maintenance of administrative-accounting processes (including processes for reporting to the Parent Company by the subsidiaries for the purpose of drawing up the consolidated financial statements) as well as the phase of risk and control assessment. In particular, with regard to this phase, the assessment of risks and the effectiveness of controls is conducted in accordance with the methods defined by the Appointed Executive, shared with the Internal Auditing Department, and with support as necessary from the Parent Company’s Risk Management and Compliance Department. In order to identify the approaches to assess financial disclosure risks, the Appointed Executive may avail of the Parent Company’s operating risks management division. For the other Group Companies, the Internal Contacts of the Appointed Executive avail of each Company’s operating risk management division, where existing. For the specific purpose of assessing risks and controls in the disclosure system, the Appointed Executive is supported by the Human Resource Department as well as, where needed, the Parent Company’s Internal Auditing Department. For the other Group Companies, the Internal Contacts of the Appointed Executive avail of the support of the Operating Department as well as, where needed, the Controller.

In terms of the methods used to inform top management on the Financial Disclosure Control Model, the Appointed Executive reports to the Bank’s Corporate Bodies on the adequacy and effective application of said Model. In this regard, taking into account the provisions of Legislative Decree no. 39/2010 on external auditing of accounts, the Appointed Executive:

- supports the Board of Statutory Auditors and the Independent Auditing Firm in assessing the correct use and homogeneity of accounting standards for the purpose of preparing the individual and consolidated financial statements;
- provides the Supervisory Body pursuant to Italian Legislative Decree 231/01 with the related certification pursuant to art. 154-bis, section 5 of the CFL as well as indications when specific critical situations are detected relating to the adequacy or operation of the financial disclosure control model;
- draws up an annual report to submit to the Managing Director and the General Manager (according to their respective powers established by the Internal Regulation), subsequently transmitted to the Board of Statutory Auditors. This report contains:
 - o an explanation of activities carried out as well as any key critical situations found in the operation of the financial disclosure control model;
 - o an assessment of the significance of the risk, by proposing Group Companies considered “significant” and financial statement accounts classified as “critical”, to be analysed the following year;
 - o planning of activities to be carried out for the following year, also in consideration of the above points.

Roles and functions

The responsibilities relating to the implementation and operational phases of the “Financial Disclosure Control Model”, taking into account the applicable regulatory context, which assigns specific responsibilities to the Appointed Executive, are assigned to Corporate Bodies and mainly to the Appointed Executive. For the purpose of carrying out his duties relating to preparing company accounting documents (mainly annual Financial Statements and Interim Financial Reports), the Executive is aided by the competent company officers of Banco Desio and the other Group Companies.

Operationally, the Appointed Executive specifically avails of the support of the Administration Division and coordinates with departments of Banco Desio and Group Companies in order to receive information on the performance of activities which influence the economic, equity or financial position of Banco Desio and the other Group Companies. Specifically, the Appointed Executive:

- interfaces with the Parent Company’s Human Resource Division in order to verify that the administrative-accounting processes are formalised in specific organisational procedures, requesting specific supporting documentation from the Division ;
- has the right to request specific certifications from the Human Resource Division regarding:
 - o the correct operation of company infrastructures and applications used to acquire, process and represent administrative-accounting information;
 - o the existence of adequate procedures to guarantee the protection of company informational assets, also with regard to outsourced IT processes.
- promptly acquires information on planned activities and the subsequent results of activities carried out by the Parent Company’s Internal Auditing Department, and may avail of the support of said Department in carrying out its controls;
- has the right to request the Management Control and Risk Management Department to carry out additional analysis and assessment of risks in administrative-accounting processes he identifies periodically when selecting “key accounts”;
- may request the Compliance Department to provide consulting for the assessment and management of compliance risk as well as for any corrective actions to be implemented;
- for the purpose of transmitting the certifications/declarations to the market (with specific regard to the annual, half-year and quarterly financial statements), requests that the “Parent Company’s Process Managers” issue specific internal certifications, or may assign said internal structures to carry out specific audit activities for the purpose of verifying the correct performance of administrative-accounting processes. As proof to support the certification and audit activities, the Appointed Executive may acquire specific internal documentation and/or reports from the business structures involved.

For Group Companies, the Appointed Executive interfaces with the Contacts specifically identified for each Company (Internal Contacts of the Appointed Executive) on the reporting flows to acquire to ensure the regular preparation of the (annual and half-year) Consolidated Financial Report as well as the Consolidated Interim Report on Operations (first and third quarter). Operationally, he receives specific certifications from his Contact containing, at a minimum, the following information:

- assessment of the adequacy and effective application of administrative-accounting procedures, with specific reference to controls implemented to mitigate the main risks;
- assessment of the adequacy of controls and, more generally, of the organisational safeguards on financial disclosure established at company level;
- correspondence of the equity, economic and financial data and additional information provided for preparing the annual and half-year financial report with the accounting books and records;
- compliance of the accounting documents with the applicable international accounting standards;
- any critical situations, risks and uncertainties arising from the audits performed, as well as the related action

plan

8 – CORPORATE INFORMATION

Governance of corporate information is formalised in the Corporate Information Procedure, first approved in its original form by the BoD and most recently updated on 29 January 2013.

The Corporate Information Procedure is structured as follows:

- definition of procedures for calling Board of Directors and Committee meetings, for the forwarding in advance of documentation on agenda items and the related confidentiality restrictions (also see section 1 above);
- identification of the central role of Chairman and Managing Director in the information, internal, inter-company and external flows system, associated with Board activities and, more generally, privileged information;
- reference to the discipline of privileged information, confidentiality and publication obligations (according to the progress of the information), with illustrative and summary identification of the events/circumstances which, as a rule, represent privileged information;
- regulation of the methods and timing for publishing privileged information, in observance of current regulations;
- assignment to the investor relator, under the supervision and responsibility of the Managing Director, of the handling of relations with investors, press, analysts and markets, and identification of corporate structures which provide their direct support in the aforesaid relationships. Currently, the investor relator activities are carried out by the Planning, Management Control and Equity Investments Department;
- definition of provisions for subsidiary companies and relations with the Holding Company, for handling privileged information;
- discipline of the register of parties who, within the Group, have access to the privileged information which is still confidential.

The process for the disclosure of the privileged information envisages that the text of press releases is approved by the Board of Directors, signed by the Chairman and promptly disclosed, for publication via a specific system managed by Borsa Italiana, and the responsibility of the General Secretariat and Corporate Affairs Department. For the purpose of ensuring prompt disclosure, the BoD must take steps so that price sensitive press releases are issued as soon as the related resolution is adopted, suspending the meeting if necessary.

Once disclosed, the press releases are published on the website www.bancodesio.it in the “Investor Relations” section and sent to all Divisions, Areas and Branches, the contact individuals of the subsidiary companies, the common Representative of the savings’ shareholders and the parties on the Investor Relator’s contact list.

The Procedure also disciplines disclosure obligations regarding Internal Dealing, in accordance with current provisions of the CFL and Consob, for transactions carried out on ordinary and savings shares issued by Banco Desio by Significant Parties (Shareholders or Representatives), reserving the BoD the right to establish any restrictions or time-limits on transactions on listed securities issued by Banco Desio. The party appointed to receive, handle and disclose the communications is the General Secretariat and Corporate Affairs Department.

During 2012, transactions for a total equivalent value of Euro 1 million, referring to ordinary and savings shares of Banco Desio, were reported by the Shareholders and Representatives and published by the Company.

The Corporate Information Procedure also disciplines the methods for tracing and handling information relating to the Representatives (fees received, any stock options assigned, equity investments held in Group Companies and other significant offices held) and the approval of the annual calendar of corporate events, for the purpose of the disclosure obligations envisaged by current Consob/Borsa Italiana regulations.

Banco Desio published the disclosure and corporate documentation made public by law on its own website: e.g. periodic reports, Articles of Association, Shareholders’ Meeting regulations, press releases, documents relating

to the individual Shareholders' Meetings (notices of calling, BoD reports and minutes), documents relating to bond issues (base and/or simplified prospectuses, final conditions of single issues, notices on results, etc.). The Italian Subsidiary Bank (Banco Desio Lazio S.p.A) has its own internet site, linked to Banco Desio's site, and consistent with the latter in terms of basic corporate information (specifically: financial statements, articles of association, prospectuses and other documents relating to bond issues).

For the Group's Italian Banks, the Information Flows Regulation for Corporate Bodies identifies the parties that must regularly send information flows to Corporate Bodies, establishing the minimum content of information flows for each business areas, as well as the related frequency, as detailed in a specific calendar that indicates, month by month, the flows to be provided to each Body, with reference also to the various types of risk.

On 29 January 2013, pursuant to Article 3 of Consob Resolution no. 18079 of 20 January 2012, the Board of Directors resolved to adhere to the "opt-out" regime envisaged in Articles 70, paragraph 8 and 71 paragraph 1-bis of Consob Regulation no. 11971/99, taking advantage of the right to deviate from publishing obligations for disclosure documents described in Attachment 3B of said Consob Regulation, in the event of significant transactions involving mergers, spin-offs, share capital increases through in-kind contribution of assets and disposals.

9 – BOARD OF STATUTORY AUDITORS

The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFL and Articles 144-octies and 144-novies of the Issuers' Regulations.

Banco Desio's Board of Statutory Auditors in office was also appointed by the Shareholders' Meeting held on 28 April 2011 with the list voting mechanism illustrated in the previous section 2.1.1), with the term expiring as of the approval date for the financial statements as at 31 December 2013. Its composition is illustrated in the attached Table 2. The Auditors elected from the minority list are the Chairman of the Board of Statutory Auditors (Mr. Eugenio Mascheroni) and an Alternate Auditor (Mr. Carlo Maria Mascheroni).

In addition to the integrity and independence requisites and the causes of ineligibility envisaged by special legislation and by the Code of Conduct for listed banks, the Statutory Auditors must meet – on penalty of forfeiture – the following professional standing requirements: at least one Standing Auditor and one Alternate Auditor (and, in any event, the Chairman) must be enrolled in the register of chartered accountants; those who do not meet this requisite must have gained specific experience in the activities and the sectors indicated in the Articles of Association. The satisfaction of requirements is verified by means of the "supervisory" procedure described by the BoD and, in implementation of a specific recommendation of the Code of Conduct, said Board carries out a specific check on the observance of said requisites.

All the Statutory Auditors have been chosen from among those enrolled in the register of chartered accountants and are independent on the basis of both the CFL and the Code of Conduct (with the exception of the criteria of "nine years" permanence on the Board of Statutory Auditors which, due to the reasons already mentioned for the Directors in compliance with the resolution adopting the Code adopted on 22 February 2007, is not, however considered in itself an indication of non-compliance with the independence requirement).

In 2012, the Banco Desio Auditors met a total of 62 times, between Board meetings and audit inspections at offices or branches, compared to 43 meetings in 2011. The Auditors' activities in relation to participation in the meetings of corporate bodies are summarised in Table 2. The other offices held by Auditors in subsidiaries, associated companies, investee companies or in listed and/or supervised companies is reported in Table 3.

The lists of the other offices held by the Statutory Auditors, pursuant to Article 2400 of the Italian Civil Code and Article 148-bis of the CFL, are published in the prescribed methods and timeframes, together with the information on the personal and professional characteristics of the Statutory Auditors (published upon submission of the lists for the renewal of corporate offices, in compliance with governing Consob provisions), and are available on the internet site www.bancodesio.it in the “Organi Sociali/Documentazione Esponenti” (Corporate Bodies / Representatives’ Documentation) section.

The Internal Regulations of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A) include a general limit on the accumulation of statutory auditor offices, similar to that already adopted by law within the Parent Company, establishing that the Statutory Auditors cannot undertake this office when they already hold the office of member of the audit body in five listed companies. It is also established, within the Internal Regulations of the Italian Group Banks, that the Statutory Auditors cannot undertake offices in bodies other than the Board of Statutory Auditors within other Group Companies, as well as with companies in which Banco Desio directly or indirectly holds a strategic investment¹⁴.

The Boards of Statutory Auditors of Banco Desio, Banco Desio Lazio SpA and Fides SpA have assumed the functions of SB 231.

10 – DEALINGS WITH SHAREHOLDERS – FUNCTIONING OF THE GENERAL SHAREHOLDERS’ MEETING

The information in this section has been provided in accordance with Article 123-bis, section 2, letter c of the CFL.

As indicated in section 8, Banco Desio publishes the documentation of interest to its shareholders on its website, with particular reference to that pertaining to the exercise of their rights (attendance and voting, dividends, etc.), as managed by the Legal and Corporate Affairs Department, which is on the staff of the Managing Director.

Specifically, the notice of calling for Banco Desio’s Shareholders’ Meeting is published, within the legal deadlines differentiated according to the issues on the agenda, on the internet site www.bancodesio.it –“Investor Relations/Assemblea” (Investor Relations/ Shareholders’ Meeting) section, and concurrently in the national press. The Articles of Association of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A) envisage simpler procedures, in relation to the aforementioned ownership set-up of these subsidiaries. In particular, as an alternative to publication in the Official Gazette, it is permitted to forward the notice of calling to those entitled to attend as recorded in the shareholders’ register, via means suitable for ensuring proof of receipt, at least 8 days before the date fixed for the Shareholders’ Meeting. In the absence of the calling formalities, the Shareholders’ Meeting is deemed to meet quorum requirements in plenary form as per Article 2366 of the Italian Civil Code.

The notice of calling contains indications on methods for exercising the right to attend and vote, as summarised below.

¹⁴ As indicated by section 2.2.e) of the Bank of Italy Instruction, “strategic” for such purposes is understood to mean the equity investment which is equal to at least 10% of the share capital or the voting rights during ordinary Shareholders’ Meetings of the investee company and 5% of the consolidated regulatory capital of the Banking Group.

Pursuant to Art. 83-sexies of Italian Legislative Decree no. 58/98 (CFL) and Art. 10 of the Articles of Association, parties holding the right to vote who have sent the Company a notification issued by an authorised intermediary based on the evidence in its accounting records at the end of the seventh trading day prior to the date set for the Shareholders' Meeting on first calling may participate in the Shareholders' Meeting, or be represented according to the methods set forth by law. Those who are shown to hold shares only following said date shall not have the right to participate or vote in the Shareholders' Meeting.

Each party entitled to participate in the Shareholders' Meeting may be represented according to the methods set forth by law, without Articles of Association exceptions or limitations, by way of written proxy, as explained in detail in the notice of calling for the Shareholders' Meeting.

The proxy may be granted to a **Designated Representative of the Company as defined by Article 135-undecies of Legislative Decree no. 58/98**, without cost to the shareholder, with voting instructions for all or some of the proposed agenda items, as explained in detail in the notice of calling for the Shareholders' Meeting.

Pursuant to Article 127-ter of Legislative Decree no. 58/98, shareholders may ask questions about the agenda items, including prior to the Shareholders' Meeting, as explained in detail in the notice of calling for the Shareholders' Meeting.

Pursuant to Art. 126-bis of Legislative Decree no. 58/98, shareholders who, even jointly, represent at least one-fortieth of the share capital with voting rights may request items be added to the agenda, within ten days of the publication of the notice of calling and indicating the additional issues proposed in their request, as explained in detail in the notice of calling for the Shareholders' Meeting.

The Articles of Association of the Italian Subsidiary Bank (Banco Desio Lazio S.p.A) envisage that shareholders be entitled to attend meetings subject to the shares having been deposited at least two days before the date of the meeting. The shareholders of these subsidiaries may arrange for themselves to be represented in the general meeting, only by other shareholders.

The Shareholders' Meeting Regulations, which discipline the business of the meetings, including to the extent applicable the Special Savings' Shareholders' Meeting, aim to ensure the orderly participation of those entitled to attend, in line with the indications which emerged from the work carried out originally care of the pertinent Trade Associations.

The underlying criteria which inspired the drafting of the Regulations was to guarantee a certain discretion in the powers of the Chair, albeit in observance of legal and Articles of Association provisions, aimed at permitting appropriate flexibility in handling the general meeting business and ensuring the exercise of the rights of the shareholders, in particular the right to take part in the discussion, also with the faculty to reply.

The provisions strictly pertaining to the undertaking of the Chair of the meeting, the right to attend, personally or via proxy, the right to vote and the resolutions adopted by the meeting, remain disciplined by the Articles of Association, which furthermore do not envisage departures from the legal norms.

The minutes of the Banco Desio Shareholders' Meeting are taken by a Notary, including for Ordinary Shareholders' Meeting.

On 26 April 2012, an Ordinary Shareholders' Meeting of Banco Desio was held to approve the financial statements as at 31 December 2011.

As regards the Special Savings Shareholders' Meeting, refer to section 11 below.

11 – SAVINGS SHARES – SPECIAL SHAREHOLDERS’ MEETINGS – COMMON REPRESENTATIVE

The information in this section has been provided in accordance with Article 123-bis, section 2, letter d of the CFL.

The characteristics of Banco Desio savings shares are indicated in the previous section 2 (Information on the ownership set-ups and on the Group), to which reference should be made.

With regard to the organisational aspects of this category, the Articles of Association discipline the procedures for the disclosure to the Common Representative of potentially price sensitive transactions for savings shares, establishing that the Common Representative’s fee may be paid by the Company through an Ordinary Shareholders’ Meeting resolution and assigns the Common Representative management of the expense account to protect the category’s interests, with the obligation to report to the Special Shareholders’ Meeting. With regard to the Special Shareholders’ Meeting, in addition to the appointment and activity requirements for the Common Representative, the Articles of Association refers to the law.

The Special Shareholders’ Meeting held on 28 April 2011, resolved:

- subject to reporting on the activities carried out, confirmation of the appointment of Mr. Franco Fumagalli Romario as Common Representative for three accounting periods, with allocation of an annual fee of Euro 10,000, inclusive of the forfeit reimbursement of costs for fulfilling his duties and net of VAT and welfare contributions;
- establishment of a fund for the expenses necessary to protect the common interest for an amount equivalent to the fee due to the Common Representative, formally acknowledging that the recourse on the profits due to the savings shareholders exceeding the minimum guaranteed by the Articles of Association as envisaged by law, does not take place if the Ordinary Shareholders’ Meeting resolves to assume the fee due to the Common Representative, to be paid by Banco Desio (resolution that was then adopted by the Ordinary Shareholders’ Meeting held on the same date);
- to establish that the Common Representative must provide account of the use of the fund and, in any event, any costs incurred, as well as, in general, activities carried out, during the first Special Shareholders’ Meeting called to resolve on the appointment to the office.

As envisaged in the Articles of Association, Banco Desio, as a rule via the General Secretariat and Corporate Affairs Department, promptly informs the Common Representative of price sensitive corporate transactions, usually via the forwarding of press releases and any other documentation made public by law.

Thus far, no resolutions have been adopted by Banco Desio’s Bodies which are detrimental to the rights of the category, such that they would require the approval of the Special Shareholders’ Meeting.

12 – INDEPENDENT AUDITING FIRM

The company appointed to audit the accounts in accordance with the law is Deloitte S.p.A. with registered office in Milan. Upon the proposal of the Board of Statutory Auditors, the assignment was granted by the Ordinary Shareholders' Meeting of 26 April 2012, with the total duration until the approval of the 2020 financial statements. The contractual net fee is Euro 105,000 annually.

The individual responsible for the audit assignment is Mr. Riccardo Motta.

The same company “Deloitte” is appointed to audit the accounts, again in accordance with the law, of all the Italian subsidiary companies, as well as the Holding Company Brianza Unione di Luigi Gavazzi & C., with a duration, where possible, in line with that of the Banco Desio appointment.

13 – CHANGES AFTER THE END OF THE ACCOUNTING PERIOD

Between the closing of the last accounting period (31 December 2012) and the approval date of this Report indicated below, there were no significant variations to the information in the preceding sections. The sole exception is, with reference to sections 4.2, 6 and 7, that the Board of Directors resolved in its meeting to approve this Report to review the composition of the Appointments and Remuneration Committee and the Audit and Risk Committee, as summarised in the following table:

<u>APPOINTMENTS AND REMUNERATION COMMITTEE</u>	Paolo GAVAZZI (Chairman) (NE)(*) Pier Antonio CUTELLÈ (I) (M) Gerolamo PELLICANÒ (I)
<u>AUDIT AND RISK COMMITTEE</u>	Lorenzo RIGODANZA (Chairman) (I) Marina BROGI (I) Paolo GAVAZZI (NE)(**)

Key:

(*) Paolo Gavazzi appointed to replace Agostino Gavazzi (who is now an Executive Director)

(**) Paolo Gavazzi appointed to replace Stefano Lado (who is now an Executive Director)

(NE = NON-Executive Director)

(I = Independent Director)

(M = Minority Director)

Desio, Italy, 20 March 2013

On behalf of the Board of Directors
The Chairman
(Mr. Agostino Gavazzi)

INDEPENDENT DIRECTORS' ASSESSMENT OF THE
ANNUAL CORPORATE GOVERNANCE REPORT

On 20 March 2013, the Independent Directors of Banco di Desio e della Brianza SpA met, consisting of:

- Pier Antonio CUTELLE' (Attorney, Chair of the meeting)
- Professor Marina BROGI
- Gerolamo PELLICANO' (Attorney)
- Professor Lorenzo RIGODANZA

The meeting was called pursuant to Article 2.10 of the Corporate Bodies' Internal Regulation, in fulfilment of the provisions of the Code of Conduct for Listed Companies.

Having reviewed the draft of the "Annual Report on Corporate Governance and the Ownership Set-ups of the Group", pursuant to Article 123-bis of the CFL, we offer an overall positive opinion, noting in particular the adequacy of the number of Independent Directors and the role they perform. Specifically, the Independent Directors are part of the Board's three advisory committees (Related Party Transactions Committee, Audit and Risk Committee and Appointments and Remuneration Committee), for which they constitute at least a majority if not the entire membership. Our opinion is consistent with the results of the self-assessment carried out by the entire Board of Directors.

This opinion is referenced in section 3 of said Report.

Pier Antonio Cutellé (Attorney)

Professor Marina Brogi

Gerolamo Pellicanò (Attorney)

Professor Lorenzo Rigodanza

TABLE 1 – STRUCTURE AND FUNCTIONING OF THE BOARD OF DIRECTORS AND THE COMMITTEES AS AT 31/12/2012

BOARD OF DIRECTORS (appointed by the Shareholders' Meeting held on 28 April 2011 with term ending upon approval of the financial statements as at 31 December 2013)				Executive Committee (appointed annually after Shareholders' Meeting for financial statements)		Appointments and Remuneration Committee (appointed on 26 April 2012)		Internal Audit and Risk Committee (appointed on 26 April 2012)		Ordinary/ Savings sh.	Related Party Transactions Committee (appointed on 26 April 2012)		
Office	Name and Surname	Independent	Executive	Attendance out of 2012 total meetings (20)	Member of the Committee	Attendance out of 2012 total meetings (14)	Member of the Committee	Attendance out of 2012 total meetings (8)	Member of the Committee	Attendance out of 2012 total meetings (11)	Attendance out of 2012 total meetings (1)	Member of the Committee	Attendance out of 2012 total meetings (6)
Chairman	Agostino Gavazzi	No	YES (*)	20	YES as per Art. Assoc.	14	YES	8	No	10	1	No	2
Deputy Chairman	Stefano Lado	No	YES (*)	20	YES as per Art. Assoc.	14	No	6	YES	11	1	No	1
Managing Director	Nereo Dacci (until 19 June 2012)	No	YES	9	YES as per Art. Assoc.	4	No	4	No	6	1	No	2
Managing Director	Tommaso Cartone (from 21 June 2012)	No	YES	10	YES as per Art. Assoc.	10	No	2	No	4		No	2
Director	Guido Pozzoli	No	YES (*)	20	YES as per Art. Assoc.	14	No		No		1	No	
Director	Lorenzo Rigodanza	YES	No	20	No		YES	3	YES	11	1	YES	6
Director	Marina Brogi (from 26 April 2012)	YES	No	13	No		No		YES	7		No	
Director	Pier Antonio Cutelle'	YES	No	19	No		YES	4	No		1	YES	6
Director	Egidio Gavazzi	No	YES (*)	18	YES	14	No		No		1	No	
Director	Luigi Gavazzi	No	No	20	secretary	14	No		No		1	No	
Director	Paolo Gavazzi	No	No	20	No		secretary	8	secretary	11	1	secretary	6
Director	Luigi Guatri (until 26 April 2012)	YES	No	3	No		YES	0	YES	0	1	No	
Director	Gerolamo Pellicano'	YES	No	20	No		YES	5	No		1	YES	6
General Manager	Claudio Broggi			19 as per Art. Assoc.		12 as per Art. Assoc.		4		8	1 as per meeting regs.		4
Deputy General Manager	Marco Sala			20		14		4		7	1 as per meeting regs.		3
2012 AVG DURATION OF BoD AND COMMITTEE MEETINGS				approx. 2 hours and 15 minutes		approx. 45 minutes		approx. 30 minutes		approx. 1 hour and 15 minutes			approx. 30 minutes

(*) This Director is now considered an executive as he belongs to the Executive Committee, and in consideration of the increased frequency of the meetings and the broadening of responsibilities of this Committee. for the resulting provisions see section 13 of the Report

TABLE 2 - STRUCTURE AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS
(Appointed by the Shareholders' Meeting held on 28 April 2011 with term expiring upon approval of the financial statements as at 31 December 2013)

Office	Name and Surname	Attendance at Board of Statutory Auditors' activities (tot. 62)*	Attendance at Shareholders' Meetings (tot. 1)	Attendance at BoD meetings (tot. 20)	Attendance of EC meetings (tot. 14)	Attendance of IAC/ARC meetings (tot. 11)	Attendance of ApptRemC meetings (tot. 8)	Attendance of RPTC meetings (tot. 6)
Chairman	Eugenio Mascheroni	58	1	20	14	11	8	6
Standing Auditor	Rodolfo Anghileri	51	1	19	14	7	3	6
Standing Auditor	Marco Piazza	32	1	14	10	4	=	5
Alternate Auditor	Giovanni Cucchiani	=	=	=	=	=	=	=
Alternate Auditor	Clemente Domenici	=	=	=	=	=	=	=
Alternate Auditor	Carlo Maria Mascheroni	=	=	=	=	=	=	=

Notes:

* Including audits (individual or collective) at the Head Offices or branches of the Bank.

BoD: Board of Directors

EC: Executive Committee

IAC: Internal Audit Committee

ApptRemC: Appointments and Remuneration Committee

RPTC: Related Party Transactions Committee

ARC: Audit and Risk Committee

TABLE 3 - MAIN OFFICES HELD BY THE REPRESENTATIVES OF BANCO DESIO AS AT 31 DECEMBER 2012

Name and Surname	Offices held in the Parent Company Banco Desio Brianza	Offices held in the Holding Com. Brianza Unione di Luigi Gavazzi & C. Sapa	Offices held in Italian subsidiary - associate - investee - other listed companies - other supervised companies (banks, stock broking companies, asset management companies, "107", etc.)					
			Subsidiaries		Associated/Investee companies		Other	
			Company	Offices	Company	Offices	Company	Offices
Agostino Gavazzi	Chairman, BoD Chairman, EC Chairman, ApptRemC	Director (General)						
Stefano Lado	Deputy Chairman, BoD Member, EC Member, ARC	Deputy Chairman (General)	Banco Desio Lazio Fides Chiara Assicurazioni Rovere SdG	Chairman BoD Deputy Chairman Chairman BoD Deputy Chairman (*)	Istifid SpA Cedacri SpA	Director Director	C-Card SpA	Director
Tommaso Cartone	Managing Director Member, EC							
Pier Antonio Cutelle'	Director Member, RPTC and ApptRemC							
Egidio Gavazzi	Director Member, EC							
Luigi Gavazzi	Director and BoD Secretary Secretary, EC	Chairman (General)						
Paolo Gavazzi	Director Secretary, ARC Secretary, ApptRemC Secretary, RPTC							
Marina Brogi	Director Member ARC						Prelios SpA A2A SpA Impregilo SpA	Director Member, Oversight Committee Director
Gerolamo Pellicano'	Director Member, RPTC and ApptRemC							
Guido Pozzoli	Director Member, EC							
Lorenzo Rigodanza	Director Chairman, ARC Chairman, RPTC							
Claudio Broggi	General Manager		Banco Desio Lazio	Deputy Chairman				
Marco Sala	Deputy General Manager		Chiara Assicurazioni	Director				
Eugenio Mascheroni	Chairman, BoSA		Banco Desio Lazio Fides	Chairman, BoSA Chairman, BoSA				
Rodolfo Anghileri	Standing Auditor	Standing Auditor	Fides	Standing Auditor				
Marco Piazza	Standing Auditor							
Giovanni Cucchiani	Alternate Auditor	Chairman, BoSA						
Clemente Domenici	Alternate Auditor	Alternate Auditor					Helvetia Vita SpA	Alternate Auditor
Carlo Maria Mascheroni	Alternate Auditor						Class Editori SpA CIA SpA	Chairman, BoSA Standing Auditor

Notes: BoD: Board of Directors EC: Executive Committee ApptRemC: Appointments and Remuneration Committee ARC: Audit and Risk Committee RPTC: Related Party Transactions Committee BoSA: Board of Statutory Auditors

(*) office resigned as at the approval date of the Report

TABLE 4 – SUMMARY OF COMPLIANCE WITH THE INDIVIDUAL PROVISIONS OF THE CODE OF CONDUCT FOR LISTED COMPANIES

The schedule summarises the state of compliance with the provisions of the Code, on a consistent basis with the Report Format indicated by Borsa Italiana, as adopted by Banco Desio

The information is also provided in accordance with Article 123-bis of the CFL

Subject	YES/NO	Summary of the reasons for any deviation from the Code's recommendations (or reference to the Report as well as other notes)
COMPLIANCE		
Indicate whether the Code of Conduct has been adopted	YES	<p>The criteria for independence requirements for Directors and Auditors were implemented with the following exceptions:</p> <p>it has NOT been considered necessary to apply the independence requirement that the person cannot be in office for more than 9 years, since this parameter is not deemed significant especially in a situation such as the Bank's, where, on the contrary, lengthy experience attained by a Director/Statutory Auditor who has always operated independently, can be considered not as a weakness, but rather an enhancement of independence, (if no other opposing factors intervene) and this is to Company's complete advantage in terms of the contribution of the Director/Statutory Auditor to the correct execution of the decision-making processes.</p> <p>Criteria for Directors' remuneration (Article 7 of the Code amended in 2010, now Article 6) was implemented, as part of actions taken to align with the Supervisory Provisions of 30 March 2011 and completed with the Shareholders' Meeting resolution of 30 November 2011, with the observations included in <u>Table 5</u></p>
Indicate whether the Bank or any of its strategically significant subsidiaries are subject to non-Italian legal provisions which influence the Bank's governance structure	NO	Also see section 2 of the Report
BOARD OF DIRECTORS		
Indicate whether the BoD has established general criteria for the maximum number of offices in other companies compatible with the office of Director of the Bank	YES	Also see section 3 of the Report
Indicate whether the BoD has been reserved the task of examining and approving: . the strategic plans of Banco Desio and the Group . the Corporate Governance System of Banco Desio . the Group structure	YES YES YES	The matters which are the exclusive responsibility of the General Shareholders' Meeting are unaffected: e.g. Articles of Association amendments
Indicate whether the BoD has assessed the adequacy of the organisational, administrative and accounting set-up of the Bank and its subsidiaries, with particular reference to the internal auditing system and the handling of conflicts of interests	YES	Also see sections 5 and 7 of the Report
Indicate whether the BoD has established, having examined the proposals of the Appointments and Remuneration Committees and consulted the Board of Statutory Auditors, the remuneration of the Managing Director, the Chairman and the Deputy Chairman, as well as the allocation of the total fee established by the Shareholders' Meeting	YES	Also see section 6 of the Report
Indicate whether the BoD has assessed the general operating performance, taking into account the periodic disclosure of the appointed Bodies/Parties, as well as comparing the results achieved with those planned	YES	Also see section 4 of the Report

Indicate whether the BoD has been reserved the task of examining and approving, in advance, the transactions of Banco Desio and the subsidiaries that have significant strategic, economic, equity or financial importance	YES	Also see section 3 of the Report
Indicate whether the BoD has been reserved the task of examining and approving transactions with related parties and/or transactions in which one or more Directors have an interest on their own account or on behalf of third parties	YES	Certain types of transactions with related parties (other than those disciplined by Article 136 of the CBA) may be delegated within the limits envisaged by the specific Procedure
Indicate whether the BoD has established general criteria for identifying transactions (also with related parties) that have significant strategic, economic, equity or financial importance	YES	These are essentially extraordinary transactions (share capital increases, conferrals/business segment transfers, mergers/spin-offs) as well as transactions on equity investments, properties and branches
Indicate whether the BoD has carried out an assessment on the size, composition and functioning of said BoD and its Committees	YES	The assessment is carried out annually at the time of approval of the Report
Indicate whether the Shareholders' Meeting has authorized exceptions to the non-compete restriction pursuant to Article 2390 of the Italian Civil Code	NO	
APPOINTED BODIES		Also see section 4 of the Report
Indicate whether one or more Directors have received operating powers	YES	This applies exclusively to the Managing Director
Indicate whether the Chairman of the BoD: . has received operating powers . covers a specific role in the drawing up of company strategies . is the main party responsible for management operations . is the controlling shareholder of Banco Desio	NO NO NO NO	The Chairman is the representative of the company which controls Banco Desio
Indicate whether an Executive Committee has been established to which the BoD has delegated powers	YES	
Indicate whether the appointed Bodies/Parties have reported to the BoD with regard to the activities carried out when exercising the powers granted	YES	Reporting on the exercise of delegated powers is part of the provisions of the Information Flows Regulation for Corporate Bodies adopted during 2012
OTHER EXECUTIVE DIRECTORS		Also see section 4 of the Report
Indicate whether within the BoD there are Directors considered executives because: . they cover the office of Managing Director or Executive Chairman in companies of strategic importance controlled by the Issuer . they cover executive offices within Banco Desio or in a subsidiary of strategic importance, or holding company, and the appointment concerns Banco Desio . they are members of the Executive Committee <u>and</u> due to the frequency of the meetings and subject matters dealt with, they are inherently involved in the current operations of Banco Desio	NO NO YES	During 2012, there was a increase in the frequency of meetings and a broadening of responsibilities of the Executive Committee, such that the BoD now considers that the EC members are Executive Directors
INDEPENDENT DIRECTORS		Also see section 3 of the Report
Indicate whether the BoD: . has at the first opportunity after its appointment, assessed the independence requirements the non-executive Directors must satisfy . has assessed whether independence requirements continued to be met throughout the accounting period . during the assessments, has applied all the independence criteria envisaged by the Code	YES YES NO	The criteria of "9 years" is not applied for the reasons indicated above in point 1)
Indicate whether the Board of Statutory Auditors has checked the correct application of the assessment criteria and the procedures adopted by the BoD for assessing the independence requirements	YES	

Indicate whether the Independent Directors have met during the accounting period in the absence of the other Directors	YES	2 meetings during 2012
CORPORATE INFORMATION		Also see section 8 of the Report
Indicate whether the BoD has approved a procedure for internal management and external communication of corporate documents and information, with particular reference to privileged information	YES	
Indicate whether initiatives have been undertaken to increase Directors' awareness with regard to the corporate situation and dynamics	YES	Training programmes dedicated to top management have been held regarding issues inherent in Legislative Decree no. 213/2001 (see also section 7 of the Report)
COMMITTEES WITHIN THE BOD		Also see sections 6 and 4 of the Report
Indicate whether a Committee has been set up which carries out the functions of two or more of the committees envisaged by the Code	YES	An Appointments and Remuneration Committee has been appointed.
Indicate whether Committees have been set up, other than those envisaged by the Code	YES	Related Party Transactions Committee (an advisory committee envisaged in Consob and Bank of Italy regulations, consisting of 4 Independent Directors) - Credit Facilities Committee and Finance Committee (the latter 2 are technical-operating committees outside the BoD)
APPOINTMENTS COMMITTEE		Also see section 6 of the Report
Indicate whether the BoD has assessed whether to establish an internal Appointments Committee	YES	An Appointments and Remuneration Committee has been appointed.
Indicate whether the Committee is made up of at least 3 Directors, <u>all non-executive</u> the majority of whom are independent	NO	Also see section 4.2 of the Report. Given that one member is now considered an Executive Director, the BoD revised the composition of the committee on 20 March 2013
Indicate whether the Remuneration Committee is assigned the following additional functions:		
. propose candidates to the BoD in the event of the co-opting of an Independent Director	YES	
. indicate the candidates for the office of Independent Director to be submitted to Banco Desio's Shareholders Meeting	NO	This requirement is fulfilled by the Articles of Association provisions on list voting
. formulate opinions to the Banco Desio BoD with regard to the size and composition of the same	YES	The Appointments and Remuneration Committee is now also involved in the BoD self-assessment process.
. formulate proposals on the candidatures for the office designated by Banco Desio in Subsidiary/Associated/Investee companies	YES	
REMUNERATION COMMITTEE		Also see section 6 of the Report
Indicate whether the BoD has established an internal Remuneration Committee	YES	An Appointments and Remuneration Committee has been appointed.
Indicate whether the Committee is made up of at least 3 Directors, <u>all non-executive</u> the majority of whom are independent	NO	Also see section 4.2 of the Report. Given that one member is now considered an Executive Director, the BoD revised the composition of the committee on 20 March 2013
Indicate whether the Directors must refrain from participating in meetings where proposals are made relating to their remuneration	YES	
Indicate whether the Remuneration Committee is assigned the following additional functions:		
. present the BoD with proposals for the remuneration of the Managing Director and the other Directors vested with particular offices (Chairman and Deputy Chairman)	YES	
. assess and/or determine the criteria for the remuneration of the Managing Director, the General Manager and the Executives with strategic responsibilities, also at Group level	YES	
. formulate proposals to the BoD for the allocation of the total compensation established by the Shareholders' Meeting	YES	
Indicate whether the minutes of the Committee meetings have been taken	YES	

Indicate whether during the performance of its tasks, the Committee has the possibility of accessing information and business functions, as well as availing itself of external consultants	YES	
Indicate whether the Committee has been assigned an expenditure budget for its activities	YES	Euro 25,000 per annum
DIRECTORS' REMUNERATION		See also section 6 of this Report, as well the "Group Remuneration Policies Report" prepared in accordance with Article 123-ter of the CFL
Indicate whether a significant part of the remuneration of the Managing Director, the General Manager and the Executives with strategic responsibilities is linked to specific results/objectives	YES	
Indicate whether share-based incentive plans have been envisaged in favour of the parties indicated above	YES	There is a residual stock option plan for shares of the subsidiary Fides SpA (described in Part I of the Notes to the Consolidated Financial Statements). There is a stock grant plan for Group management described in the aforementioned "Group Remuneration Policies Report"
Indicate whether the remuneration of the non-executive Directors is linked to a significant extent to the economic results of Banco Desio	NO	
Indicate whether share-based incentive plans have been envisaged in favour of non-executive Directors	NO	
Indicate whether agreements have been entered into between the Bank and the Directors, which envisage an indemnity in the event of resignation, removal without just cause or termination of the relationship following a take-over bid	NO	
AUDIT AND RISK COMMITTEE		Also see section 7 of the Report
Indicate whether the BoD has established an Audit and Risk Committee	YES	
Indicate whether the Committee is made up of at least 3 Directors, <u>all non-executive</u> the majority of whom are independent	NO	Also see section 4.2 of the Report. Given that one member is now considered an Executive Director, the BoD revised the composition of the Committee on 20 March 2013
Indicate whether at least one member of the Committee has specific experience with regard to accounting and financial matters, assessed as adequate by the BoD	YES	
Indicate whether the Committee has been assigned the following additional functions:		
. assist the BoD (as well as senior management) with the functions it is entrusted with by supervisory regulations concerning internal auditing	YES	Powers reintroduced in implementing the 2011 Code of Conduct (without prejudice to the prerogatives of the Board of Statutory Auditors established by Legislative Decree no. 39/2010 regarding external auditing of accounts)
. assess, together with the executive appointed to draw up the accounting documents, the adequacy of accounting standards and their consistency for the purpose of drawing up the consolidated financial statements	YES	
. express, also upon the request of the Managing Director, opinions on specific aspects pertaining to the identification of the main corporate risks, as well as the planning and assessment of the internal audit system	YES	
. examine the plan of activities of the Internal Audit Division and the periodic reports the same draws up	YES	

. assess the proposals of the independent auditing firm for the auditing appointment, the work plan and the reports drawn up by the same, as well as generally oversee the efficacy of the audit process . report to the BoD, every six months, on the activities carried out and the adequacy of the internal audits	YES YES	Powers reintroduced in implementing the 2011 Code of Conduct (without prejudice to the prerogatives of the Board of Statutory Auditors established by Legislative Decree no. 39/2010 regarding external auditing of accounts)
Indicate whether the Chairman of the Board of Statutory Auditors or a Standing Auditor has taken part in the Committee meetings	YES	
Indicate whether the minutes of the Committee meetings have been taken	YES	
Indicate whether during the performance of its tasks, the Committee had the possibility of accessing information and business functions, as well as availing itself of external consultants	YES	
Indicate whether the Committee has been assigned an expenditure budget for its activities	YES	Euro 50,000 per annum
INTERNAL AUDIT SYSTEM		Also see section 7 of the Report
Indicate whether the BoD has defined the policies of the internal audit system, so that the main risks pertaining to Banco Desio and the Group are identified, gauged, handled and monitored, for the purpose of sound and prudent management	YES	Mainly according to the provisions in the Bank of Italy Supervisory Regulations (Circ. 229/99, Circ. 263/06 "Basel 2", Meas. 10 February 2007, "Compliance", Meas. 4 March 2008, "Corporate Governance", etc.)
Indicate whether the BoD has assessed the adequacy, efficacy and functioning of the internal audit system	YES	This assessment is usually carried out at the time of approval of the periodic reporting of the ARC and the internal audit, compliance and risk management divisions
Indicate whether the BoD has identified the Executive Director appointed to oversee the functioning of the internal audit system	YES	The Managing Director was given this responsibility on 27 September 2012
Indicate whether the Managing Director: . has identified the main business risks for the Bank and Group and has submitted them for the examination of the BoD . has followed the guidelines of the BoD, overseeing the planning, creation and management of the internal audit system, constantly checking the adequacy, efficacy and efficiency . has adapted this system to the dynamics of operating conditions and the legislative and regulatory context . has proposed the appointment, removal and remuneration of the individual in charge of internal auditing to the BoD	YES YES YES YES	This identification was updated as part of the ICAAP Process ("Basel 2") and most recently as part of the definition of the Risk Appetite Policy Appointment of the head of internal auditing resolved in 2012
Indicate whether the BoD has appointed one or more parties tasked with checking that the internal audit system is always adequate, fully operative and functioning	YES	These are the heads of internal auditing, risk management and compliance
Indicate whether the individual in charge of internal auditing is hierarchically free from responsibility for any area of operations Indicate whether the individual in charge of internal auditing has: . had direct access to all the information useful for carrying out their appointment . reported on their activities to the Audit and Risk Committee, the Board of Statutory Auditors and the Managing Director	YES YES YES YES	The reporting, direct or otherwise, of the internal audit division to the management and control bodies has been re-organised within the sphere of the Information Flows Regulation for Corporate Bodies
Indicate whether Banco Desio has established an Internal Auditing division and whether the individual in charge is the same as the head of the division	YES	
Indicate whether Banco Desio and the subsidiaries have adopted the Organisational Model pursuant to Italian Legislative Decree No. 231/2001	YES	
Indicate whether risk management and internal audit systems exist in relation to the financial disclosure process, consolidated or otherwise	YES	

CONFLICTS OF INTEREST - OBLIGATIONS OF THE REPRESENTATIVES - TRANSACTIONS WITH RELATED PARTIES		Also see section 5 of the Report
Indicate whether the BoD has established a procedure for approving and carrying out transactions with related parties	YES	
Indicate whether the BoD has defined transactions or criteria for identifying transactions which must be approved by the BoD subject to the opinion of the Internal Audit Committee and/or independent experts	NO	
Indicate whether the BoD has adopted operating solutions suitable for facilitating the identification and adequate handling of situations where a Representative is the holder of an interest on his own account or	YES	
BOARD OF STATUTORY AUDITORS		Also see section 9 of the Report
Indicate whether the Board of Statutory Auditors:		
. has, at the first opportune meeting after its appointment, assessed the independence requirements the Directors must satisfy	YES	
. has assessed whether independence requirements continued to be met throughout the accounting period	YES	
. during the assessments, has applied all the independence criteria envisaged by the Code	NO	See similar note referring to the Directors
Indicate whether the same provisions applied to the Directors for the transactions in which they have a direct or indirect interest, are applied to the Statutory Auditors	YES	
Indicate whether the Board of Statutory Auditors has overseen the independence of the independent auditing firm, checking the nature and entity of any extra services rendered by the same (or by the same network)	YES	
Indicate whether the Board of Statutory Auditors has co-ordinated with the Internal Audit Division and with the Audit and Risk Committee during its activities	YES	
DEALINGS WITH SHAREHOLDERS		
Indicate whether Banco Desio has established a specific section on the website dedicated to important information for the shareholders	YES	
Indicate whether an investor relator has been appointed	YES	Giorgio Federico Rossin - Tel. No. 0362/613469 - E-mail: G.Rossin@bancodesio.it
Indicate whether the establishment of a corporate structure tasked with handling shareholder relations has been assessed	YES	The various activities pertaining to these dealings are the responsibility of the Investor Relator and the Legal and Corporate Affairs Division (on the staff of the Managing Director)
GENERAL MEETINGS		Also see section 10 of the Report
Indicate whether the Articles of Association envisage the prior communication pursuant to Article 2370, section 2 of the Italian Civil Code, for the purpose of attending General Meetings	NO	
Indicate whether the shares in relation to which the communication to attend the meeting is requested remain restricted until said meeting is over	NO	
Indicate whether initiatives have been undertaken for facilitating attendance of the meeting and the right to vote (e.g. voting by mail, on-line voting, video-conference facilities)	NO	The General Meeting Regulations, as well as the Articles of Association, are published on the website www.bancodesio.it in the section dedicated to "corporate governance"
Indicate whether General Shareholders' Meeting regulations have been adopted	YES	
Indicate whether the BoD has reported to the Meeting on the activities carried out and scheduled and has taken steps to ensure the shareholders adequate disclosure so that they can make the related decisions in full awareness of the facts	YES	This disclosure takes place within the limits of the law
Indicate whether during the accounting period, significant changes have taken place with regard to the market capitalisation of Banco Desio or its corporate structure	NO	

Indicate whether the BoD has assessed the appropriateness of proposing changes to the Articles of Association on the quorums for the exercise of the shares and rights protecting minority shareholders	NO	The corporate structure and the free float are such that they do not justify quorums less than the legal ones
ADDITIONAL CORPORATE GOVERNANCE PRACTICES		
Indicate whether Banco Desio applies additional corporate governance practices besides the legal or regulatory obligations	YES	Banco Desio adopted an Organisational Model as per Legislative Decree no. 231/2001 and the functions of the related Supervisory Body were taken over the Board of Statutory Auditors during 2012 (see section 7 of the Report)
CHANGES AFTER THE END OF THE REFERENCE ACCOUNTING PERIOD		
Indicate whether changes have taken place in the corporate governance structure as from the 2012 year end date	NO	Also see section 4.2 of the Report. Given that certain members are now considered executives, the BoD revised the composition of the Appointments and Remuneration Committee and the Audit and Risk Committee on 20 March 2013.

Table 5**Comparison between Article 6 of the (2011) Code of Conduct and the 2011-2013 Stock Grant Plan for Management of Banco Desio Group**

Code of Conduct Recommendation	2011-2013 Stock Grant Plan	Comments
Directors must maintain a portion of assigned shares until their term in office ends (ref. Article 6 C, sec., 2 c)).	<p>Shares are assigned by 30 June of the year following the last year of each assignment cycle.</p> <p>The deferment mechanism is linked to the timing of approval of the consolidated/separate financial statements and dependent upon verification that the performance objectives, on which the share attribution is based, were met.</p> <p>Following verification, the shares are immediately available once granted to the beneficiaries and there are no specific share retention mechanisms.</p>	Although not technically a share retention mechanism, by deferring share distribution to 30 June of the year following the end of each of the three annual assignment cycles, the same objectives are achieved in terms of aligning the issuer's interests and those of the beneficiaries over the medium/long-term period.
Executives with strategic responsibilities must maintain a portion of assigned shares for an adequate period of time (ref. Article 6.C.3 and comment to Article 6).	<p>Shares are assigned by 30 June of the year following the last year of each assignment cycle.</p> <p>The deferment mechanism is linked to the timing of approval of the consolidated/separate financial statements and dependent upon verification that the performance objectives, on which the share attribution is based, were met.</p> <p>Following verification, the shares are immediately available to the beneficiaries once granted and there are no specific share retention mechanisms.</p>	Although not technically a share retention mechanism, by deferring share distribution to 30 June of the year following the end of each of the three annual assignment cycles, the same objectives are achieved in terms of aligning the issuer's interests and those of the beneficiaries over the medium/long-term period.