The right direction.

Interim
Financial
Report

2017

Iccrea Banca

2017 Interim Financial Report
Iccrea Banca S.p.A.

Iccrea Banca S.p.A.
Central Credit Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome
Share capital: €1,151,045,403.55 fully paid up
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at June 30, 2017

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Report on operations

CORPORATE BOARDS

for 2016-2018
Elected by the Ordinary Shareholders' Meeting of July 12, 2016
Officers designated by the Board of Directors at the meetings of October 4, 2016 and October 27, 2016

Board of Directors

MAGAGNI Giulio	Chairman
MAINO Giuseppe	Senior Vice Chairman
LIBERATI Francesco	Vice Chairman
ALFIERI Lucio	
AZZI Alessandro	
CARRI Francesco	
COLOMBO Annibale	
FERRARINI Franco	
FERUGLIO Carlo Antonio	
MORETTI Mara	
PORRO Angelo	
RICCI Secondo	
STRA Pierpaolo	
TOSON Leonardo	
SAPORITO Salvatore	

Executive Committee

CARRI Francesco	Chairman
COLOMBO Annibale	
FERUGLIO Carlo Antonio	
PORRO Angelo	
RICCI Secondo	

Board of Auditors

GASPARI Luigi	Chairman
RONDINA Romualdo	Standing Auditor
SBARBATI Fernando	Standing Auditor
ANDRIOLO Riccardo	Alternate Auditor
FELLEGARA Annamaria	Alternate Auditor

Senior management

RUBATTU Leonardo	General Manager
BOCCUZZI Giovanni	Vice General Manager

1. INTRODUCTION

The Financial Report at June 30, 2017 consists of the interim report on operations and the interim financial statements, comprising the financial statements and the explanatory notes to the financial statements.

In application of Legislative Decree 38 of February 28, 2005, the interim financial statements at June 30, 2017, have been prepared in accordance with the provisions of the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established under Regulation (EC) no. 1606 of 19 July 2002.

More specifically, the interim financial statements, which undergo a limited audit only, have been prepared in compliance with the provisions of IAS 34, which govern interim financial reporting.

2. ECONOMIC DEVELOPMENTS

The international macroeconomic environment[1]

The international economic cycle is strengthening: the acceleration of investment in most of the economies is driving trade, which has been picking up rapidly since the end of 2016.

The recovery proceeded in the advanced economies. In the United States, after a slowdown in the first quarter, the latest indicators point to stronger growth driven by domestic demand.

World output consolidated the strong growth rates seen at the end of 2016, thanks to the acceleration posted in the advanced economies. Among the latter, especially strong performances were registered by the United States (+2.1% year-on-year, from 1.3%) and Japan (+7.2% from +3.4%).

In the United Kingdom, the purchasing managers' indices (PMI) continued to signal solid economic conditions despite the ongoing uncertainty connected to Brexit. Definitive figures on the United Kingdom's GDP growth in the first quarter of 2017 were released in June. According to the Office for National Statistics, British GDP rose by 0.2% on the previous quarter.

In the emerging countries, the picture remained positive overall. In China, growth strengthened at the beginning of the year thanks to fiscal expansion and a revival in foreign demand; in the upcoming quarters GDP growth is expected to slow gradually, in keeping with the government's policy of reabsorbing the existing economic and financial imbalances.

Consumer price inflation decreased slightly in the main advanced economies; in the United States it returned below 2 per cent in May. The exception is the United Kingdom, where the Bank of England expects inflation to remain above target for some time, also owing to the depreciation of the pound. Core inflation remains very low in the advanced economies and negative in Japan. The emerging economies are also displaying moderate price growth.

The global economic recovery remains shadowed by a number of sources of uncertainty, primarily associated with US economic policy intentions, although in May US economic policy uncertainty declined further, although the year-on-year rate of change continued to show an inertial increase (+28.6% year-on-year, down from +232.6%).

As expected, at its March 15 meeting the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 0.75-1.00%, citing improvement in the labor market and signs of recovery in investment. The forecasts for GDP growth in 2017 were revised upwards (to +2.2% from 2.1%), while unemployment should fall by more than expected (to 4.3% from 4.5%) in 2017. Inflation will continue to be monitored closely. More than half of firms expect the rise in rates to continue.

By contrast, the European Central Bank remained very cautious about any reduction in the current monetary stimulus, especially in view of global uncertainty, which according to President Draghi in recent remarks "remains elevated". The tapering of the quantitative easing program from €60 billion a month will be assessed by the Governing Council in its coming meetings, bearing in mind the downward revision of inflation forecasts (1.2% in 2017, down from 1.4%).

[1] *Source: Economic Bulletin of the Bank of Italy, no. 3/2017 and Punto Macro Internazionale – Federcasse, no. 7/2017*

Macroeconomic conditions in Italy[2]

According to the most recent figures, economic activity appears to be gradually accelerating.

In the second quarter, GDP continued to expand, rising by about 0.4% on the previous period.

Industrial production increased by 1.0% year-on-year in April (from +2.9%, -0.4% month-on-month, compared with +0.4%), while in the second quarter of 2017 capacity utilization rose from 75.7% to 76.5%. Turnover in April showed more rapid growth, although it slowed from the previous period (+4.0% year-on-year, down from +7.2%), while industrial orders decreased (-2.2% from +9.2%, -0.7% month-on-month from -4.3%). In June, the confidence index for manufacturing firms remained above the threshold indicating an expansion, rising to 107.3 from 106.9 points, as did the manufacturing PMI (from 55.1 to 55.2 points).

In the labor market, the unemployment rate started rising again in May (11.5%, up from 11.2% in April). In parallel, preliminary estimates point to a contraction in the number of people in employment (-55 thousand and -0.2% compared with April), with the employment rate slipping to 57.7% (down about 0.1 percentage points). Despite the decrease in the last month, in the three months from March to May, the number of people in employment rose by 65 thousand. The youth unemployment rate (15-24 years) increased to 37% from 35.8% in April. The number of inactive people was essentially unchanged on the previous month.

The most recent data on the balance of payments, for April 2017, show an improvement in the overall current account and capital account balance, after having the deterioration registered in January.

Imports from European Union countries fell to about €18 billion (compared with the €22.4 billion in the previous survey), in step with exports, which returned below €20 billion. Imports from non-EU countries contracted by 15.1% month-on-month, while exports fell more sharply, declining by about 20%.

The trade balance with non-EU countries deteriorated by 38.7%.

Overall, total imports declined to €30.4 billion. The contraction on a monthly basis was 17.8%, while there was virtually no change year-on-year.

The Italian banking system

The expansion in lending to the non-financial private sector continued in the first few months of 2017, buoyed by the demand for loans to households.

The expansion in lending to the non-financial private sector continued until May. The rise in mortgage lending slowed slightly (to 2.5%), while consumer lending strengthened.

Loans to firms stagnated both quarter-on-quarter and year-on-year (0.2 and 0.3%, respectively). While the cost of credit is low and the outlook for growth has gradually improved, the demand for bank credit on the part of firms has been dampened by firms' ample liquidity.

Developments in lending to firms vary considerably by sector of economic activity. Growth has been rapid in services, slightly positive in manufacturing and negative in construction. Lending growth remains stronger for larger firms (0.7%) than for smaller enterprises (-3.1%).

Between February and May, total funding by Italian banks increased. An increase in deposits by residents and greater recourse to refinancing transactions with the Eurosystem more than offset the decline in wholesale funding and bond placements through bank branches.

The default rate returned to pre-crisis levels for exposures to households, while it rose slightly for loans to firms. For all groups classified as significant for supervisory purposes, in the first quarter the percentage of total loans classified as impaired decreased compared with the previous quarter both gross and net of writedowns.

The mutual banks[3]

Lending to customers by the mutual banks amounted to €131.3 billion as at March 2017. The market share of loans was 7.1%, down slightly on December 2016.

Mutual bank lending was diversified by geographical area, with the South posting a small gain in loans to residents (+0.5%), while the North-west saw virtually no change (-0.2%).

Loans to firms amounted to €80.8 billion (-3.9% compared with -1.5% for the banking system as a whole), with a market share of 9.4%.

Broken down by sector of borrower, the mutual banks posted growth of +1.2% in loans to consumer households. By contrast, lending to producer households contracted by -2.3%.

The market shares of the mutual banks by borrower sector were equal to 17.9% in lending to producer households, 8.4% in lending to consumer households and 8.4% in lending to non-financial corporations. The

[2] *Source: Punto macro Italia Federcasse, July 2017*

3 *Source: Circolare statistica Federcasse, March 2017*

market share of lending to the non-profit sector was also very high at 13.3%.

With regard to the geographical distribution of lending, substantial growth was recorded in lending to consumer households in the South (+3.3%) and the North-west (+4.1%).

An analysis of lending by economic sector shows a concentration in "construction and real estate", with the figure for the mutual banks (32.7%) exceeding the average for the banking system as a whole (28.7%). Lending to the agricultural sector also represented a large proportion of the total (10.1% for the mutual banks compared with 5% for the banking system).

At March 2017, total funding by the mutual banks amounted to €195 billion. The aggregate was essentially unchanged (+0.1%, compared with +0.9% for the entire banking industry).

At the same date, funding from mutual bank customers amounted to €155.8 billion, down 1.7% year-on-year, compared with a contraction of 4% for the banking industry as a whole). Mutual bank funding from banks as at March amounted to €39 billion, up significantly both year-on-year and on the first quarter of 2017 (+7.9%, compared with +13.7% for the entire banking system year-on-year).

Of total funding by the mutual banks, 80% was raised from customers and bonds and 20% from interbank funding. The composition differs significantly from the system average, where funding from banks is considerably higher at 30.8% at the end of the first quarter of 2017. Within the customer funding aggregate for the mutual banks, the share of current accounts is significantly larger than the average for the entire banking system.

Total "capital and reserves" (as indicated in monthly statistical reporting) amounted to €19.7 billion (-3%) at March 2017.

The Tier1 ratio and the Total Capital Ratio of the mutual banks were 16.3% and 16.6%, respectively, in March.

Preliminary information on economic developments[4] confirms the tightening of margins already registered at the end of 2016. Net interest income declined, albeit less sharply than in previous quarters: -1.2% year-on-year (-6.5% for the banking industry as a whole), while revenue from trading (item 100) contracted substantially on 2016 (-72%, in line with the system average). Net revenue from services expanded (+3.7%) but did not offset the decline core performance, with gross income contracting by (-12.4%, in line with the banking industry as a whole). On the cost front, no significant rationalization appears to have been undertaken, but preliminary information on developments in the income statement shows virtually no change year-on-year (+0.1%). Reflecting the foregoing, operating income at the end of March amounted to €373 million, a significant dears on the previous year: -33.1% year-on-year (-39.1% for the banking system average).

At the geographical level, margins contracted across the board, with the start of cost rationalization efforts, although these differed by area.

Income statement figures* as at March 2017 show net revenue from services rising by about €14 million on the same period of the previous year. As at March, the aggregate amounted to €360 million (+3.7%, compared with -9.7% for the banking industry as a whole). A positive contribution came from fee and commission income for management, intermediation and consulting services (+25.4% year-on-year) and distribution of third-party services (+10.4% year-on-year).

4 Source: BASTRA B.I. reports

** Income statement data, reported quarterly by the banks, do not include all the cost and revenue items included in the half-year and annual financial statements.*

3. THE ICCREA GROUP'S STRATEGIC LINES OF BUSINESS

The Parent Company, Iccrea Banca, both directly and indirectly through the Group companies, supports the banking operations of the mutual banks, acting on a partnership basis to provide products, services and consulting to enable them to maximize their market performance. The main areas of our operations comprise:

- providing access to domestic and international capital markets;
- trading and order collection services for bond and equity transactions and the associated custodian and settlement activities;
- structuring securitizations of performing and non-performing receivables;
- operational and accounting services with which the mutual banks perform the exchange and settlement of collections and payments on domestic and international clearing systems;
- intermediation of cash flows and management of the collateral of the mutual banks for participation in monetary policy operations and gaining access to interbank capital markets;
- asset management and pension products;
- insurance services;
- credit solutions and services for SMEs, leasing and factoring, corporate finance solutions and support for import/export activities and international expansion;
- consumer credit;
- issuing credit and debit cards and associated processing activities;
- acquiring and associated processing services;
- IT services;
- managing impaired loans.

The companies of the Iccrea Banking Group are controlled by Iccrea Banca, which is in turn owned by the mutual banks and other entities of the mutual banking system.

Business areas

The Group is organized into three business areas designed to provide better focus on and specialization in its market.

The **INSTITUTIONAL** business area consists of those companies that offer products and services targeted directly at the mutual banks. The wide range of solutions available include financial services, payment systems, securities administration, debt collection, web-based services, facility management services, real estate services and IT services. The Group companies that comprise this segment are: Iccrea Banca itself, BCC Gestione Crediti, BCC Beni Immobili, BCC Solutions and BCC Sistemi Informatici.

With regard to **Iccrea Banca's** role as the mutual banking system's finance hub and in managing liquidity, in 2016 the mutual banks continued to participate in collateralized funding activities through transactions with the ECB and with market counterparties.

The liquidity obtained from the ECB by the T-LTRO Group in the fourth auction in di March 2017 amounted to €8.9 billion, as planned. Iccrea Banca had already evaluated the possibility of concentrating participation in the program even further in conjunction with the last auction (demand from the 105 mutual bank applicants out of 144 totaled about €5.2 billion). Following numerous corporate transactions, changes in the composition of the T-LTRO II Group will probably lead to variations in the aggregates. Part of the liquidity drawn could be repaid to the ECB.

Following the last edition of the T-LTRO, total outstanding collateralized loans the pool collateral mechanism went from €17 billion in the first quarter of 2017 to €12 billion in the second.

At June 30, 2017, mutual bank deposits on the daily settlement account amounted to about €4.5 billion (the average of balances in the first half of the year was more than €5.1 billion), while fixed-term deposits came to €1.7 billion.

The wholesale trading of Italian government securities saw volumes contract by 20% in the first half of 2017 compared with the same period of 2016, to about €48.6 billion, although Iccrea remained one of the leading operators in the sector.

As part of its market making activities, Iccrea Banca maintained quotes for about 600 eurobonds and 100 Italian government securities.

Total volumes at June 30, 2017 amounted to €5.2 billion, of which €3 billion in Italian government securities and €2.2 billion in eurobonds.

On the Hi-MTF platform (order driven) liquidity was ensured for some 1,200 bonds issued by more than 60 mutual banks.

Within its OTC derivatives operations, Iccrea Banca transacted a notional of about €4.7 billion, an increase of 98.6% on the first half of 2016.

In view of market conditions characterized by very low interest rates, Iccrea Banca provided the mutual banks instruments to hedge risks on their assets in a notional amount of about €609 million, in line with the previous year.

Transactions with Iccrea BancaImpresa involved contracts with a notional of about €51 million.

Medium/long-term funding in the first half of the year to meet the financing needs of Group companies, net of maturing liabilities, included 3 bond issues totaling €1.214 billion, with an average maturity at issue of 3.81 years. Of the total amount placed, 50.6% were subscribed by the retail customers of the mutual banks and 49.4% by institutional investors through an EMTN issue.

Total outstanding medium/long-term liabilities issued by the Bank at June 30 amounted to €6.132 billion, with an average residual life of 2.40 years, generating interest expense of €52.56 million.

The Bank's own securities portfolio increased in absolute terms compared with the same period of 2016. The rise was attributable to an increase in securities classified as held to maturity. At the same time, the AFS portfolio decreased at June 30, due to strong trading activity during the period.

These developments reflected:

- macroeconomic intervention by the ECB with the T-LTRO program;
- market volatility in the second quarter in particular, partly attributable to the French presidential elections, the uncertainty about the terms of the United Kingdom's exit from the European Union and the stability of the May Government, the risk of early elections in Italy and expectations for inflation and an increase in interest rates.

The turnover of the portfolio generated a gain for the first half of the year of €16.74 million, 128% of the budget forecast for 2017 as a whole (€13 million).

More specifically, the Italian government securities component of the portfolio at June 30, 2017 amounted to €7.3 billion, compared with €6.7 billion at June 30, 2016, an increase of 18.3%. The average duration of AFS assets remained well below 2 years, in compliance with corporate instructions to limit the exposure to interest rate risk.

Nevertheless, the performance of the portfolio saw net interest income contract compared with the budget projections. The reasons for the divergence were as follows:

- consolidation of a larger part of the portfolio than initially estimated;
- a decrease in the average size of the investment book over the period and a decline in the contribution of eonia funding at negative interest rates;
- a decline in interest rates on government securities over the entire Italian yield curve and a consequent widening of the difference with respect to the rates estimated in the planning phase.

Medium/long-term intercompany assets amounted to €5.9 billion, an increase of 9.8% net of maturing assets and amortization compared with the end of 2016 (€5.37 billion). These assets generated interest income of about €34.77 million.

In February 2017, a new unit was established in the Proprietary Finance and Trading department with the aim of engaging in proprietary trading on the main equity and bond markets.

In the order collection segment, the first half of 2017 saw a reduction of 36.3% in total volumes, from €21.3 billion to €13.6 billion, in line with the downturn in the associated markets. Iccrea Banca nevertheless confirmed its position as the leading intermediary in the mutual banking industry, ranking second in volumes handled for third parties on the Domestic MOT market operated by Borsa Italiana, with a share of 12.9%, and third in the Euro-TLX and Hi-MTF bond markets of Borsa Italiana, with a share of 9%.

Activity on the primary market was essentially unchanged compared with the first half of 2016, with volumes of €1.69 billion.

The Bank also participated in the placement of the eleventh issue of the BTP Italia, which saw considerable participation by the mutual banks, with a total value of €779 million.

In the same period, Iccrea Banca placed three bonds, one with institutional investors and two with the customers of the mutual banks, for a total of €1.25 billion, in response to strong market demand.

Activities involving the payments systems of Iccrea Banca were focused on achieving the following objectives in the interests of the mutual banks served:

- implementing the exchange and settlement of payments/collections with banks in Europe and beyond;
- minimizing the costs that the individual mutual banks would incur to conduct these transactions (connections, technological infrastructure, procedures, etc.), and at the level of regulatory compliance (participation in working groups sponsored by ABI, Bank of Italy CIPA, Target, etc.);
- reducing costs for the banks served and enabling them to provide effective commercial services to their customers;
- leveraging the nature and role of the mutual banking network while expanding the offering with new products.

The world of payment systems is seeing the emergence of new non-bank operators who are very aggressive in their approach to the market and free of legislative or supervisory restrictions.

This environment makes it essential to develop new value-added services for customers to preserve profitability and enhance the loyalty of mutual bank customers. Accordingly, Iccrea Banca is continuing development of products like MyBank and CBill for payments (completion of product range in 2017 on the invoicer/creditor side), electronic invoicing, digital document retention and services connected with the digitization of government and the STS.

As part of its participation in official government and interbank initiatives, Iccrea Banca participates in the main working groups sponsored by ABI, Consorzio CBI, EBA and the Electronic Invoicing and Dematerialization Observatory.

In addition, under the aegis of the European Payments Council (an associative body the European banking industry in charge of managing the SEPA payments scheme and liaising with the European authorities, Iccrea Banca:

- is participating on the top decision-making body (the Board) as part of the Italian representation coordinated by ABI with Unicredit, ISP, and ICBPI, thus giving it the opportunity to participate in strategic decisions at the time of their formation;
- is participating in the working group on the evolution of SEPA mechanisms;
- defined the instant-payment mechanisms as Italian representative;
- has taken advantage of the option granted by the EPC to configure our banks as a group, which has made it possible to achieve significant savings on fees for participation in SEPA.

With regard to the key figures for the first half of 2017, Iccrea Banca handled a total of 139,000,000 transactions in various products, an increase of 4.3% on the same period of 2016.

The fastest growing products included credit transfers (+7%), trade collections and SEPA direct debits (+5%) and the Trade Portfolio (+20%). This was accompanied by a substantial increase in conservation activities, which more than offset the structural decline in the volume of checks (-10%).

As part of the Institutional Services segment, Iccrea Banca acts as a partner capable of delivering the entire value chain of securities administrative and settlement services. In addition, it provides a high degree of flexibility in service delivery so that it can also handle non-standard approaches, customizing products and services based on customer needs.

The most important projects begun in the first half of 2017 concerned areas covered by MiFID II on investment services, which will enter force in January 2018, and concerning compliance with the new Qualified Intermediary Agreement introduced by US authorities for taxation of North American financial instruments.

With regard to ancillary services and finance database management, numerous services were provided to support the mutual banks' activities, including:

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 80,000 instruments;
- administrative support for activities connected with the management of the "pool collateral" mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at complying with Consob liquidity regulations and, more recently, placement and trading procedures for those issues. As of June

2017, there were 59 mutual banks, with a total of 1,125 issues listed;

- the issuers service, which offers administrative support for the issuance activity of 103 mutual banks;
- the management of activities connected with the distribution of investment funds of BCC Risparmio & Previdenza. The results achieved in the first half of 2017 confirmed the positive trend seen in recent years, with a significant increase in volumes in the retail segment, while remaining stable in the institutional segment and achieving assets under administration of about €6.5 billion for retail customers.
- the services concerning compliance with transparency rules and the monitoring of possible market abuse for which, in 2017, 133 mutual banks had subscribed to the Transaction Reporting service and 119 mutual banks to the MAD service, which saw the introduction of a new application to increase service quality;
- support for mutual banks and their customers in complying with EMIR and FACTA obligations, providing ongoing, specialist support in meeting the obligations introduced during the year;
- the event management service – for payment of coupons and redemptions, dividends and corporate operations – was provided for 14,048 events with a total volume of €13.527 billion.

As of the end of June 2017, securities worth about €92.5 billion were held in custody and administration.

The full operational continuity of the IT systems of Iccrea Banca and BCC Sistemi Informatici was assured in the first half of 2017, supporting the implementation of the Banking Group's strategy.

Work on implementing the transition from a single-company focus to a Group ICT service model continued, with the aim of creating an integrated organization the operational models and performance meeting top industrial standards. The major ICT restructuring initiatives included:

- reorganization of the "Operation" function of BCC Sistemi Informatici and Iccrea Banca, which now share an organization, working groups and heads of the unit;
- standardization of the "Information Services" unit and integration of the operating and project management processes of BCC Sistemi Informatici and Iccrea Banca;
- continuation of the consolidation of suppliers;
- a technology refresh of the datacenter in order to implement "best in class" technologies to expand system capacity and eliminate infrastructure limitations;
- the ongoing optimization and integration of the business continuity and disaster recovery process among the Group companies.

In addition, the period saw the continuation of the development of the "Make IT" program, which was launched in July 2015, in order to expand the number of solutions installed, completing its implementation within BCC Sistemi Informatici, to strengthen security measures and to finalize initiatives necessary to comply with the commitments made to the ECB. More specifically, the following initiatives are under way:

- consolidation of the network infrastructure (LAN of the Campus network and Data Center);
- extension to BCC-SI of solutions to secure access to critical infrastructure by "privileged" users (PIM and PAM);
- extension of the antifraud platform to the mutual bank card service;
- extension of monitoring of the SIEM Qradar system (e.g. DB monitoring, cloud security);
- implementation of tools to launch the new testing structure (in particular, data masking solutions).

ICT services were delivered consistently and continuously, with average key platform availability of 99.80% for BCC Sistemi Informatici and 99.90% for Iccrea Banca.

During the first half of 2017 no disruptions occurred that might have had a reputational, regulatory or financial impact on the Banking Group.

In 2017, ICT continued the expansion of the role of the Technology Office (TO) to cover all the companies served, thereby providing ongoing support for base services.

As part of the institutional services provided to the mutual banks, total bad debts managed by BCC Gestione Crediti amounted to €3.4 billion.

The Bank is developing and updating its technology and operational platform to enable the adoption of uniform tools and processes to give the future Banking Group solutions that can provide a consolidated representation of the bad debts held by the mutual banks.

The **CORPORATE** business area is composed of companies that offer solutions to small and medium-sized enterprises and to local government entities that are customers of the mutual banks. It provides a wide range of products and services for meeting all customer needs, even the most advanced ordinary lending and special corporate finance products, medium/long-term lending and international services, leasing and factoring, rental and other advanced consulting services. The Group companies that operate in this area are: Iccrea BancaImpresa and its subsidiaries BCC Factoring and BCC Lease.

In the first half of 2017, new lending to firms by Iccrea BancaImpresa, including outright loans and guarantees, amounted to €758 million. New credit in the leasing segment amounted to about €388 million, ordinary lending to €155 million, corporate finance transactions to €95 million, international lending to €71 million and guarantees issued to €49 million.

With regard to service activities associated with giving the mutual banks access to the guarantee fund for SMEs, operations increased by about 3% in the first half of 2017 compared with the same period of 2016. The number of applications totaled more than 3,550 in the first half of 2017 (of which more than 1,700 were approved), with a total amount of more than €270 million in financing requested. Service activities also increased in the guarantee enforcement area, enabling the mutual banks to recover more than €21 million from the fund on defaulted positions to date, of which more than €3 million in the first half of 2017 alone. For service activities associated with CDP funds, in the first half of 2017 the mutual banks drew resources for loans to customers of €22 million, of which €17 million under the Enterprise fund and €5 million under the Home fund.

These volumes were supplemented by €98.6 million in new small-ticket lease transactions (**BCC Lease**) and turnover of €890.6 billion in the factoring segment (**BCC Factoring**).

The **RETAIL** business area groups those companies that offer products and services to the retail customers of the mutual banks. Its wide range of products and services includes asset management, personal loans, payment cards and insurance products. The Group companies in this business area are: the Parent Company, Iccrea Banca, BCC Risparmio & Previdenza, BCC Vita, BCC Assicurazioni, BCC Credito Consumo, BCC Retail and Banca Sviluppo.

In the electronic money sector, in the first half of 2017 Iccrea Banca continued to register growth in the card segment (issuing), with 3.6 million operational cards and about €9.2 billion in transaction volume and in the POS and ATM segment (acquiring), with more than 170,000 POSs and 4,300 ATMs active and about €10.2 billion in transaction volume.

In the issuing segment, all three components (debit, prepaid and credit) posted gains, which as at the end of June 2017 can be summarized as follows:

- operational debit cards with chip technology exceeded 2.3 million cards, compared with 2.1 million at the end of June 2016, an increase of 6.9%;
- the stock of operating credit cards expanded by 5.9%, rising from 802,000 cards at June 30, 2016 to 850,000 at the end of June 2017;
- operational prepaid cards rose from 427,000 cards at the end of June 2016 to 457,000 at the end of June 2017, an increase of 6.8%.

Analogously, the acquiring segment also posted an increase in volumes: total transaction volume in the first half of 2017 amounted to €10.2 billion, compared with €9.6 billion in the first half of 2016.

The period also saw the completion of a range of projects to enhance operational efficiency, increase volumes handled and develop new business models:

- boosting the efficiency of the credit card issuing process for the Direct Issuing range, with an appreciable improvement in time needed to produce/send cards to the mutual banks/final customers;
- development of the ‘push acquiring’ project aimed at supporting the mutual banks in placing the Acquiring product through a dedicated network of agents. At June 30, 2017 the new channel enabled the participating mutual banks to increase their acquiring volume by more than €105 million, compared with €43 million acquired in the first half of 2016;
- increasing the efficiency of the dispute management process for the entire issuing portfolio (both Direct Issuing and old products), with a substantial decrease in the time needed to process complaints and respond to final customers;
- completion of the Direct Issuing product range, with the inclusion of the new Mastercard Gold card;
- completion of certification with the JCB and UPI circuits and continuation of the of insourcing of POS acquiring processing;
- development of the Ventis.it marketplace, dedicated to supporting the digitization of the SME customers of the mutual banks. Iccrea Banca involved the mutual banks in the search for/selection of "local excellences": customer firms that stand out for the excellence of their products, to which the mutual banks offer free access to the new marketplace.

In the consumer credit sector, new lending in the first half of 2017 by **BCC CreditoConsumo** amounted to €247 million, generated with about 300 participating mutual banks. The stock of loans at June 30, 2017 amounted to about €1 billion.

In the asset management sector, total assets under management/placement by **BCC Risparmio & Previdenza** amounted to €14.2 billion, with net funding in the first half of 2017 of about €1.4 billion. Assets under management include €1.3 billion in investment funds, €2.6 billion in fixed-income funds, €2.7 billion in retail and institutional portfolio management products, about €500 million in supplementary pension funds and €6.8 billion in third-party SICAVs.

Banca Sviluppo completes the Iccrea presence in the retail segment with loans of €915 million net of lending by branches whose sale had been approved at June 30, 2017 (€321 million), and direct funding of €1.4 billion (net of €519 million in liabilities held for sale).

4. CREATING VALUE FOR THE MUTUAL BANKS

In pursuing its mission of providing ongoing support to the mutual banks in improving their market positions and enhancing their competitiveness, the Iccrea Banking Group contributes to creating value in local communities by offering products and services targeted at various segments of operations and by distributing a significant share of the fees and commissions commensurate with new volumes of business generated.

At June 30, 2017, the total amount of fees and commissions passed through to the mutual banks amounted to about €183.4 million, to which the growth in electronic money accounted for the most significant portion.

€/millions	Dec 15	Jun 16	Dec 16	Jun 17
Asset management	61.0	35.2	74.5	46.6
Insurance investment products	28.8	13.9	26.3	14.0
Corporate loans	5.8	2.8	5.5	2.9
Electronic money	239.8	103.3	220.6	97.3
Consumer loans	20.2	8.5	22.0	9.6
Total fees and commissions passed through	**355.5**	**163.7**	**348.9**	**170.4**
System contributions	5.0	2.7	2.4	1.8
Dividends of Iccrea Banca (*)	13.9	14.2	14.2	11.2
Total	**374.4**	**180.6**	**365.5**	**183.4**

(*) Dividends by year of disbursement.

In addition, in the first half of 2017 financial intervention with the Deposit Guarantee Fund and the Institutional Mutual Bank Guarantee Fund amounted to €1.8 million.

5. DEVELOPMENTS IN PARENT COMPANY OPERATIONS AND THE MAIN ITEMS OF THE BALANCE SHEET AND INCOME STATEMENT

On September 15, 2016 the instrument for the merger of Iccrea Holding Spa into Iccrea Banca Spa was notarized, taking effect as from the first day of the month following that of registration of the merger instrument in the Company Register pursuant to Article 2504-bis of the Civil Code. Following registration, the merger instrument took effect as from October 1, 2016.

As a result of the foregoing, in order to enable a uniform comparison of the values reported in the financial statements at June 30, 2017 and those for the previous year, the pro forma balance sheet and income statement at June 30, 2016 of Iccrea Banca Spa are presented below to take account of the effects of the merger with Iccrea Holding Spa. The adjustments involve the aggregation of data for the previous year of Iccrea Banca Spa and Iccrea Holding Spa net of intercompany items.

BALANCE SHEET - ASSETS

	ASSETS	30/06/2017	31/12/2016
10.	Cash and cash equivalents	88,522,153	98,423,950
20.	Financial assets held for trading	471,980,783	420,177,927
30.	Financial assets at fair value through profit or loss	15,139,980	14,558,805
40.	Financial assets available for sale	3,589,502,064	5,650,669,289
50.	Financial assets held to maturity	4,388,352,172	1,600,389,734
60.	Due from banks	30,265,985,724	30,999,441,676
70.	Loans to customers	3,152,113,644	4,181,848,448
80.	Hedging derivatives	7,373,001	15,325,730
90.	Value adjustments of financial assets hedged generically (+/-)	(146,965)	(348,377)
100.	Equity investments	1,185,493,475	1,139,962,602
110.	Property and equipment	12,985,051	12,567,457
120.	Intangible assets	6,496,877	5,681,878
130.	Tax assets	77,297,419	69,899,091
	a) current	*43,576,546*	*39,468,187*
	b) deferred	*33,720,873*	*30,430,904*
	of which Law 214/2011	*2,843,717*	*2,968,715*
150.	Other assets	214,592,958	186,967,310
	TOTAL ASSETS	**43,475,688,336**	**44,395,565,520**

BALANCE SHEET - LIABILITIES

	LIABILITIES AND SHAREHOLDERS' EQUITY	30/06/2017	31/12/2016
10.	Due to banks	21,712,405,266	13,265,098,886
20.	Due to customers	14,012,514,796	24,444,622,415
30.	Securities issued	5,207,664,241	4,207,516,587
40.	Financial liabilities held for trading	511,259,071	422,615,890
60.	Hedging derivatives	45,419,994	51,814,840
80.	Tax liabilities	290,056	1,966,154
	b) deferred	*290,056*	*1,966,154*
100.	Other liabilities	373,421,731	371,378,874
110.	Employee termination benefits	11,507,772	12,262,953
120.	Provisions for risks and charges::	11,841,768	12,445,798
	b) other provisions	*11,841,768*	*12,445,798*
130.	Valuation reserves	61,366,833	67,248,992
160.	Reserves	401,193,923	391,785,505
170.	Share premium reserve	4,746,737	4,746,737
180.	Share capital	1,151,045,404	1,151,045,404
190.	Treasury shares (-)	(30,067,699)	(30,067,699)
200.	Net profit (loss) for the period (+/-)	1,078,443	21,084,184
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**43,475,688,336**	**44,395,565,520**

INCOME STATEMENT

		30/06/2017	30/06/2016 PRO FORMA
10.	Interest and similar income	99,596,768	125,618,618
20.	Interest and similar expense	(85,918,443)	(94,951,666)
30.	**Net interest income**	**13,678,325**	**30,666,952**
40.	Fee and commission income	178,727,979	173,118,105
50.	Fee and commission expense	(115,438,162)	(113,190,092)
60.	**Net fee and commission income (expense)**	**63,289,817**	**59,928,013**
70.	Dividends and similar income	25,065,202	22,414,993
80.	Net gain (loss) on trading activities	8,637,006	7,416,434
90.	Net gain (loss) on hedging activities	(379,008)	316,152
100.	Net gain (loss) on the disposal or repurchase of:	24,779,682	61,599,368
	a) loans	*8,414*	*(39,682)*
	b) financial assets available for sale	*25,832,159*	*63,978,931*
	d) financial liabilities	*(1,060,891)*	*(2,339,881)*
110.	Net gain (loss) on financial assets and liabilities designated as at fair value	581,175	1,587,697
120.	**Gross income**	**135,652,199**	**183,929,609**
130.	Net losses/recoveries on impairment:	(30,956,414)	1,980,991
	a) loans	*951,515*	*3,252,324*
	b) financial assets available for sale	*(31,722,078)*	-
	d) other financial transactions	*(185,851)*	*(1,271,333)*
140.	**Net income (loss) from financial operations**	**104,695,785**	**185,910,600**
150.	Administrative expenses:	(126,508,277)	(116,772,524)
	a) personnel expenses	*(38,839,962)*	*(41,209,531)*
	b) other administrative expenses	*(87,668,315)*	*(75,562,993)*
160.	Net provisions for risks and charges	(214,016)	(289,470)
170.	Net adjustments of property and equipment	(1,443,367)	(1,494,131)
180.	Net adjustments of intangible assets	(2,351,337)	(2,778,612)
190.	Other operating expenses/income	13,015,884	13,097,586
200.	**Operating expenses**	**(117,501,113)**	**(108,237,151)**
210.	Profit (loss) from equity investments	(223,322)	-
250.	**Profit (loss) before tax on continuing operations**	**(13,028,650)**	**77,673,450**
260.	Income tax expense from continuing operations	14,107,093	(7,403,261)
270.	**Profit (loss) after tax on continuing operations**	**1,078,443**	**70,270,189**
280.	Profit (loss) after tax on non-current assets held for sale	-	-
290.	**Net profit (loss) for the period**	**1,078,443**	**70,270,189**

The balance sheet

Assets

BALANCE SHEET DATA (millions of euros)				
	Jun-17	Dec-16	change	% change
Due from banks	30,266	30,999	-733	-2.4%
Loans to customers	3,152	4,182	-1,030	-24.6%
Financial assets held for trading	472	420	52	12.3%
Financial assets at fair value through profit or loss	15	15	1	4.0%
Financial assets available for sale	3,590	5,651	-2,061	-36.5%
Financial assets held to maturity	4,388	1,600	2,788	174.2%
Equity investments	1,185	1,140	46	4.0%
Total interest-bearing assets	**43,069**	**44,007**	**-938**	**-2.1%**
Other non-interest-bearing assets	407	389	19	4.8%
TOTAL ASSETS	**43,476**	**44,396**	**-920**	**-2.1%**

At June 30, 2017 total assets and liabilities stood at €43.5 billion compared with €44.4 billion at December 31, 2016.

The main changes included:

- a decrease of €0.73 billion in amounts due from banks, largely reflecting the increase of about €1 billion in the reserve requirement, net of a decline of about €1.7 billion in repurchase transactions;
- a decrease of €1 billion in loans to customers, attributable to the decline in repurchase transactions with the Clearing and Guarantee Fund of about €0.5 billion and amounts deposited to secure transactions on financial markets of about €0.54 billion;
- a decrease of €2 billion in financial assets available for sale, mainly due to the disposal of government securities holdings;
- an increase of €2.8 billion in financial assets held to maturity, mainly reflecting the purchase of government securities in the amount of about €3.5 billion and the redemption of government securities in the amount of about €0.8 billion.

Mutual bank operations with Iccrea Banca are mainly in the form of financing backed by refinanceable securities (pool collateral).

At June 30, 2017 loans to the mutual banks connected with pool collateral operations, including advances from the ECB secured with refinanceable securities, amounted to €21.5 billion (of which €10.6 billion in respect of funds obtained through T-LTRO II).

Securities received as collateral amounted to €24.1 billion net of the haircut applied to the various types of security. In addition, during the period financing with the assignment of loans through the "ABACO" continued. At June 30, loans received from Iccrea BancaImpresa securing the collateral pool amounted to €3.5 billion, which net of the haircut totaled €1.4 billion.

Due from banks	Jun-17	Dec-16	change	% change
Mutual banks	19,511,502	20,109,664	-598,162	-3.0%
Other credit institutions	10,754,483	10,889,777	-135,294	-1.2%
Total	**30,265,986**	**30,999,441**	**-733,455**	**-2.4%**

Amounts due from mutual banks decreased by about €599 million, while amounts due from other credit institutions declined from €10.9 billion to €10.7 billion (of which €8.9 billion in amounts due from Group banks).

Loans to customers (in thousands))	Jun-17	Dec-16	change	% change
Current accounts	166,059	184,754	-18,695	-10.1%
Medium/long-term loans	101,946	109,948	-8,002	-7.3%
Repurchase agreements	415,976	921,560	-505,584	-54.9%
Other transactions	2,439,559	2,939,139	-499,580	-17.0%
Debt securities	8,184	6,492	1,692	
Impaired assets	20,389	19,955	434	2.2%
Total	**3,152,114**	**4,181,848**	**-1,029,734**	**-24.6%**

Loans to customers decreased by €1 billion, from €4.2 billion to €3.2 billion.

The items includes amounts due from the Clearing and Guarantee Fund totaling €1.3 billion – in respect of repurchase transactions and deposits securing transactions on financial markets – and loans to subsidiaries in the amount of €1.5 billion.

Financial assets (in thousands)	Jun-17	Dec-16	change	% change
HFT	471,981	420,178	51,803	12.33%
AFS	3,589,502	5,650,669	-2,061,167	-36.48%
HTM	4,388,352	1,600,390	2,787,962	174.21%

Financial assets held for trading (**HFT**) increased by €52 million. The item main represents derivatives connected with hedges of interest rate risk on behalf of the mutual banks.

Financial assets available for sale (**AFS**), which are mainly composed of debt securities, amounted to €3.6

billion (€5.7 billion at December 31, 2016), a decrease of €2.1 billion reflecting the disposal of government securities.

Financial assets held to maturity (**HTM**) amounted to €4.4 billion, an increase of €2.7 billion on the €1.6 billion at December 31, 2016, primarily reflecting purchases of government securities in the amount of €3.5 million, offset by the maturing of securities in the amount of €0.8 billion. At June 30, the portfolio was represented by €4.2 billion in government securities (BTP) and €0.2 billion in bank bonds with a government guarantee.

Equity investments amounted to €1.185 billion, an increase of €45.5 million on December 31, 2016 (€1.140 billion), reflecting the following events: payments for future capital increases in Iccrea BancaImpresa (€60 million) and BCC Vita (€4.9 million); to cover losses and a capital increase in Ventis (€1.7 million) and BCC Retail (€0.4 million). During the period, Securfondo carried out a partial redemption of units in the amount of €21.5 million.

Liabilities

BALANCE SHEET DATA (millions of euros)				
	Jun-17	Dec-16	change	% change
Due to banks	21,712	13,265	8,447	63.7%
Due to customers	14,013	24,445	-10,432	-42.7%
Securities and financial liabilities	5,765	4,684	1,081	23.1%
Employee termination benefits	12	12	-1	-7.5%
Total interest-bearing liabilities	**41,501**	**42,406**	**-905**	**-2.1%**
Other non-interest-bearing liabilities and risk provisions	385	384	1	0.4%
Shareholders' equity	1,588	1,585	4	0.2%
Net profit for the period	1	21	-20	-94.9%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**43,476**	**44,396**	**-920**	**-2.1%**

Interest-bearing funding totaled €41.5 billion, a decrease of €0.9 billion, reflecting the following developments:

- an increase of €8.4 billion million in amounts due to banks, mainly due to funding transactions with the ECB as part of the T-LTRO II program, which totaled €8.9 billion, a decrease in repurchase transactions in the amount of about €0.3 billion and a decline in deposits of about €0.1 billion;
- a decrease of €10.4 billion in amounts due to customers, mainly reflecting the decline in repurchase transactions with the Clearing and Guarantee Fund;
- an increase of €1 billion in securities issued as part of three new issues of bonds totaling about €1.2 billion, net of about €0.2 billion in bond repurchases.

Due to banks (in thousands)	Jun-17	Dec-16	change	% change
Mutual banks	6,020,566	5,963,742	56,824	1.0%
Other credit institutions	15,691,840	7,301,357	8,390,483	114.9%
Total	**21,712,405**	**13,265,099**	**8,447,306**	**63.7%**

Interbank deposits amounted to €21.7 billion (of which €489 million in respect of Group banks), up €8.4 billion (€13.2 billion at December 31, 2016).

Within the overall aggregate, funding from mutual banks rose by €57 million (from €5.9 billion to €6 billion). The item also includes deposits received from mutual banks (€941 million) for indirect compliance with the reserve requirement.

"Other credit institutions" also includes loans from the ECB in respect of advances against securities pledged by the mutual banks and the Group, entirely represented by T-LTRO II financing of €14.4 billion.

Securities pledged as collateral for the T-LTRO II financing amounted to €15.1 billion.

Due to customers (in thousands)	Jun-17	Dec-16	change	% change
Current accounts and demand deposits	265,014	276,011	-10,997	-4.0%
Fixed-term deposits	0	2,223	-2,223	-100.0%
Loans	12,503,564	23,535,189	-11,031,625	-47.1%
Other payables	1,243,937	631,199	612,738	98%
Total	**14,012,515**	**24,444,622**	**-10,432,107**	**-42.7%**

Funding from customers declined by €10.4 billion on 2016, slipping from €24.4 billion to €14 billion. The decrease mainly reflects a decrease in repurchase transactions with the Clearing and Guarantee Fund.

The value at June 30, 2017 of securities issued was €5.2 billion (of which €438 million held by Group banks). The aggregate includes both bond hedged against interest rate risk with derivatives, the amount of which is adjusted for changes in the hedged risk as at the reporting date (fair value hedges), and unhedged bonds accounted for at amortized cost. At June 30, 2017, the item also included 4 subordinated loans.

For more information on the subordinated debt, please see section 3 under liabilities in the notes to the financial statements.

Shareholders' equity

The share capital of Iccrea Banca, represented by 22,285,487 ordinary shares with a par value of €51.65 each, is equal to €1,151 million following the merger with Iccrea Holding.

At June 30, 2017, shareholders equity excluding net profit for the year amounted to €1,588 million, an increase of €3.5 million on the end of 2016 (€1,585 million). The main changes comprise:

- €9.4 million in retained earnings from 2016, net of the distribution of dividends in 2017;
- €5.8 million from the reduction in valuation reserves following the disposal of government securities classified as AFS and the fair value measurement of securities holdings.

THE INCOME STATEMENT

INCOME STATEMENT (In thousands of euros)

	Jun-17	Jun-16 pro forma	change	% change
Net interest income	**13,678**	**30,667**	**-16,989**	**-55.40%**
Gains/losses on financial transactions	33,619	70,920	-37,301	-52.60%
Dividends	25,065	22,415	2,650	11.82%
Net fee and commission income	**63,290**	**59,928**	**3,362**	**5.61%**
Other operating expenses/income	13,016	13,098	-82	-0.62%
Total revenues	**148,668**	**197,027**	-48,359	-24.54%
Personnel expenses	-38,840	-41,210	2,370	-0.06%
Other administrative expenses	-87,668	-75,563	-12,105	16.00%
Net adjustments of property and equipment and intangible assets	-3,795	-4,273	478	-11.19%
Total operating expenses	**-130,303**	**-121,045**	**-9,258**	**7.65%**
Gross operating profit	18,365	75,982	-57,617	-75.83%
Net provisions for risks and charges	-214	-289	75	-26.07%
Net losses/recoveries on impairment of loans and other financial transactions	-30,956	1,981	-32,937	n/a
Total provisions and adjustments	**-31,170**	**1,692**	**-32,862**	**n/a**
Profit (loss) from equity investments	-223	0	-223	
Profit (loss) before tax	**-13,029**	**77,673**	**-90,702**	**-116.77%**
Income tax expense	14,107	-7,403	21,510	-290.55%
Net profit (loss) for the period	**1,078**	**70,270**	**-69,192**	**-98.50%**

The developments in performance reflect a number of factors that had an adverse impact on the results of Iccrea Banca, which reported a **net profit of €1,078 million**. These factors include:

- the contributions to the National Resolution Fund (BRRD) totaling €19.2 million. The contribution for the first half of 2016 amounted to €9 million;
- impairment of €22.5 million recognized on the units of the Fondo Atlante as a result of the placement of the Veneto banks into mandatory liquidation and the consequent writeoff of the value of their shares.

The comparison with 2016 is also affected by the decrease in the gain on the disposal of AFS equity investments, equal to €9.5 million (Visa Inc. €5 million, Cattolica €4.5 million). In the year-earlier period, that item amounted to €42.8 million as a result of the sale of Visa Europe.

Total revenues

Gross income for the first half of 2017, including other operating income (€13 million) amounted to €149 million, a decrease of €48 million on the €197 million posted at June 30, 2016. The change is mainly attributable to:

- the decrease in net interest income (€17 million);
- the increase net fee and commission income (€3.4 million);
- the increase in dividends (€2.7 million);
- the increase in net gain on trading activities (€1.2 million);
- the decrease in the gain on the disposal of financial assets available for sale (€38 million);

Personnel expenses

The Bank's personnel expenses in the first half of 2017 amounted to €38.8 million, compared with €41.2 million in the year-earlier period, a decrease of €2.4 million.

The decrease is attributable to the savings connected with the Group rationalization measures that produced a decline in costs as a result in terminations and a reduction in bonuses, over-time pay and termination benefits.

Other administrative expenses

At June 30, 2017 other administrative expenses amounted to €87.7 million, including indirect taxes and duties of €7 million and the ordinary contribution of €19.2 million to the National Resolution Fund, an increase of €10 million on the same period of the previous year (€9.2 million).

Net adjustments of property and equipment and intangible assets

Total net writedowns amounted to €3.8 million in the first half of 2017, of which €1.4 million in adjustments of property and equipment and €2.4 million in adjustments of intangible assets.

Operating expenses

Operating expenses in the first half of 2017 amounted to €130.3 million (€121 million in the first half of 2016) and include personnel expenses of €38.8 million, other administrative expenses of €87.7 million and net adjustments of property and equipment and intangible assets of €3.8 million.

Net provisions for risks and charges

At June 30, 2017, the item was a negative €0.2 million, virtually unchanged on the same period of 2016.

Net losses/recoveries on impairment of loans and other financial transactions

Net losses on impairment of loans and other assets amounted to €31 million and include writedowns of units in the Securis real estate funds (€9.2 million), the impairment of units in Fondo Atlante (€22.5 million) and writebacks of loans (€0.9 million).

Profit (loss) from equity investments

At June 30, 2017, the item showed a loss of €0.2 million, reflecting the loss incurred by Ventis srl.

Net profit (loss) for the period

Net profit for the period came to **€1.08 million,** including the positive component of direct taxes generated by the following events:

- a negative gross operating profit;
- partial taxation of dividends;
- tax neutrality of the gain on the disposal of the investments in Visa Inc. and Cattolica;
- ACE benefit for the period.

6. MAIN RISKS AND UNCERTAINTIES TO WHICH THE ICCREA BANKING GROUP IS EXPOSED

RISKS

The Iccrea Banking Group conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and the primary responsibilities of supporting and serving the mutual banks and their customers. Consistent with these principles, the Group pursues its growth objectives in accordance with the needs of the mutual banking system, ensuring, through balanced risk management, reliable and sustainable generation of value over time.

The Group develops and implements its risk management process in accordance with the applicable regulations and continually adapts its arrangements based on changes in the regulatory framework and in the market environment and internal operations.

The internal control system monitors risk management process to ensure that it is comprehensive, suitable and functional (by being effective and efficient) and that they are consistent with the risk appetite framework.

The Group has adopted risk management policies and has implemented, in accordance with supervisory regulations, the risk appetite framework (RAF), internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP).

The objective of the RAF is to establish a reference framework for determining appetite for risk, which sets ex ante the risk/return targets that the bank plans to meet and the consequent operational limits. Therefore, formalizing the risk objectives consistent with maximum risk sustainable, the business model and the strategic policies by defining the RAF is crucial to establishing a risk governance policy and a risk management process based on the principles of sound and prudent business management.

ICAAP and ILAAP seek to provide an internal assessment of the current and prospective adequacy of capital with respect to the exposure to risks that characterize operations and the operational and structural liquidity profile.

Therefore, it is critically important that the Group work continuously to accurately identify the risks to be assessed. Once the significant risks are identified, the ICAAP involves assessing the risks to allocate internal capital and determine the total capital to cover them, currently and prospectively. This includes performing stress tests to assess the Group's vulnerability to exceptional, but plausible, events.

Given the Iccrea Group's mission and operations, as well as the market environment in which it operates, the risks identified as significant and subject to assessment through the internal assessment process are the following:

- **Credit risk**: the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction;
- **Market risk**: risk of incurring losses arising from unexpected adverse movements in market prices of financial instruments, currencies and goods. The following sub-categories are the most significant:

  (i) Risk on the trading book position, i.e. the risk arising from fluctuations in the price of securities;

  (ii) Credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- **Operational risk**: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;
- **Interest rate risk on the banking book:** risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- **Concentration risk**: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- **Strategic risk**: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business

decisions, improper implementation of decisions, or lack of responsiveness to industry changes;

- **Sovereign risk**: risk of loss arising from a sovereign state counterparty defaulting on is contractual obligations or a decline in the sovereign counterparty's credit rating;
- **Real estate risk**: risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations;
- **Equity risk**: risk of loss arising from a change in the value of equity instruments in the banking book;
- **Liquidity risk**: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the existence of restrictions on the sale of assets (market liquidity risk) resulting in capital losses;
- **Residual risk**: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

UNCERTAINTIES

Uncertainty is defined as a possible event whose potential impact, ascribable to one of the categories above, is not at the moment determinable and therefore not quantifiable. The current macroeconomic and sectoral environment show:

- that the financial markets are repositioning towards "normalized" risk-return conditions;
- the high percentage of capital allocated to low-return credit operations;
- a regulatory and legislative system that is besieging the banking system, requiring greater protections and continually raising capital requirements.

These elements are all factors that must be given due attention.

These are accompanied by two major discontinuities that directly affect the Iccrea Banking Group: on the one hand, the need over the medium term to bring the percentage of NPLs back down to "less significant" levels, with the consequent actions and impact on the financial statements, consistent with developments in the Italian banking system, and on the other, the reform of the mutual banking system, which requires "significant" planning beyond the Group's already complex and detailed operations.

With specific regard to NPLs, in September 2016 the ECB issued "Guidance to banks on non-performing loans", the result of extensive work on NPLs conducted by supervisory experts. The guidance contains a summary of the best practices found and represents supervisory expectations for the future.

The guidance is aimed at all significant institutions subject to the direct supervision of the ECB, including their national and international subsidiaries. To the extent possible, however, banks are required to promote the rapid convergence of the regulatory and accounting views.

In order to develop and implement a suitable strategy for managing NPLs, banks must:

- regularly assess and review the operational environment, including internal capabilities, external conditions (macroeconomic, market, investor, servicing, regulatory, tax conditions, etc.);
- analyze and make projections about the capital implications;
- consider/analyze all the strategic options available, including in combination with one another, including a hold/forbearance strategy, active portfolio reductions, including through sales, enforcement of collateral and legal options including out-of-court solutions;
- establish portfolio targets (including foreclosed assets), determining levels of NPLs sustainable in the short and medium term;
- prepare an operational plan containing investments (e.g. IT and information flows), staffing requirements, organization, etc.;
- provide to the ECB an annual report on NPL management strategy and targets and the relative operational plan;
- periodically review the strategy and underlying assumptions;
- implement reporting flows on NPL targets and on operational effectiveness;
- align the management strategy with the associated incentive systems;
- integrate the strategy into the business plan, in projections and in the risk management system.

The main regulatory changes that will impact the Group include:

- the elimination of the prudential filter on changes in the reserve for European government securities in the AFS portfolio;
- the gradual introduction of the MREL, i.e. the minimum amount of liabilities comprised of positions subject to bail-in, starting in 2017, with the consequent potential impact on the structure of liabilities and the cost of funding;

- introduction as of January 1, 2018 of IFRS 9, the new accounting standard for financial instruments, which upon first-time adoption will affect equity through increased impairment – deriving mainly from the new methods for measuring performing loans – and a greater impact on impairment looking forward once fully implemented.

An assessment was made of the risks and uncertainties described above to underscore the effect of changes in parameters and market conditions on business performance. The Group has implemented tools for measuring the potential impact of risks and uncertainties on its operations (specifically sensitivity analysis and stress testing), which enable it to promptly and continually adjust its strategies – in terms of the model for distribution, organization and management/rationalization of costs – to changes in its environment. Risks and uncertainties are also under constant observation through the risk policies adopted by the Group: the policies are updated to reflect changes in strategy, the operating environment and market expectations. They are monitored periodically to check the status of their implementation and their suitability. The analyses conducted indicate that the Group is able to address the risks and uncertainties to which it is exposed, confirming the going-concern assumption.

7. INTERNAL CAPITAL AND LIQUIDITY ASSESSMENT PROCESS

For more on this section, please see the consolidated annual report for 2016.

8. INTERNAL CONTROL SYSTEM

For more on this section, please see the consolidated annual report for 2016.

9. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2017

ECB inspection of the credit process and thematic review of the management of non-performing loans

In 2016 the ECB conducted an inspection and assessment of the Group's lending process and problem loans. Specifically, from March 31 to July 22, 2016 the ECB conducted an on-site inspection to assess the Groups credit risk management system. In addition, the Group took part in the activities of the task force on NPLs. In that regard, the ECB's activities, carried out in accordance with its guidance to significant banks on NPLs, were specifically targeted at assessing the Iccrea Banking Group's ability to manage NPLs.

The results of the on-site inspection were communicated on March 30, 2017, while those of the thematic review were released on April 10. In both cases the Parent Company was asked to develop a specific action plan to remedy the issues identified.

Neither inspection revealed issues having an impact of a quantitative nature. The suggestions and recommendations were examined by the board of directors. The plan of actions to be taken to resolve the problems noted was submitted to the ECB and the Iccrea Banking Group expects to complete them by the end of 2017.

Some of the compliance measures were initiated while the inspection and thematic review were in progress.

T-LTRO II

On March 10, 2016 the Governing Council of the European Central Bank (ECB) approved a new series of targeted longer-term refinancing operations (T-LTRO II) to be carried out through four quarterly tenders starting June 30, 2016.

As with the first operation (T-LTRO I) Iccrea Banca (as lead institution) formed the T-LTRO II Group, composed of 158 banks (reduced to 143 following the reverse merger) and the Iccrea Banking Group banks. In 2016 a total of €5.5 billion in funding were requested, a portion of which was used to repay the amounts due under the previous operation.

In the final tender held in March 2017 the Group used its remaining borrowing allowance of €8.9 billion, thereby utilizing its maximum allowance of €14.4 billion.

Of this, around €10 billion was requested by and made available to the mutual banks and other banks participating in T-LTRO II.

The ECB has also allowed banks that took part in T-LTRO I, which has ended, to repay amounts borrowed with TLTRO II funds. Therefore, at the first maturity date of June 29, 2016 the Group settled in advance the amount borrowed under T-LTRO I totaling €6.6 billion.

The Mutual Banking Group Project

In March 2016 the plan for the establishment of the Mutual Banking Group (MBG) was submitted to the ECB. After the ECB responded, the Parent Company established the new general model for the highest operational level of the MBG, which was then presented to the mutual banks over the course of 13 local meetings attended by 243 mutual banks.

It also outlined the approach and the timetable for determining the salient aspects of the model and for implementing them.

In parallel to this an exchange of information with the supervisory authorities began, sharing the underlying ideas on how the MBG would operate and the timetable for the production of a detailed model and its implementation.

On January 18, 2017, in response to a request from the Bank of Italy of January 4, 2017, Iccrea notified the authorities that it intended to take on the role of Parent Company of the Mutual Banking Group.

On February 8, 2017 the MBG was launched with an event, attended by the mutual banks that have decided to participate in the planning process, during which the procedures, contents and timetable for activity were explained. Presentation of the request to the competent authorities is set for the end of 2017 and the MBG is scheduled to begin operation in the second half of 2018.

In these last few months, the formation of the Mutual Banking Group has continued in accordance with the guidelines set out in the reform law. Planning has continued, with theme-based projects supported by working groups in which all the mutual banks that will belong to the Group are represented.

Following the shareholders' meetings called to approve the financial statements for 2016, at which intentions to participate were announced, the scope of the Mutual Banking Group comprises the Parent Company, 154 mutual banks (reflecting mergers in the first half of 2017) and other banks, financial companies and ancillary companies directly or indirectly controlled by the Parent Company.

Discussions with the supervisory authorities revealed a need for the banking groups to undergo a comprehensive assessment, which as in 2014 will be based on a review of asset quality and a stress test. The exercise, which is currently scheduled to take place in the first half of next year, will have unique features as it will regard groups that are still being formed.

In this regard, the planning activities for the Mutual Banking Group provide for the establishment of joint working groups with the mutual banks to prepare e analysis of the asset quality of the banks.

The ECB is monitoring our progress and has initiated a targeted dialogue by creating a schedule of meetings and issuing documents to be used in making a preliminary assessment of the most important areas to be considered in preparing the request.

The Iccrea Group has begun close consultations with the supervisory authorities, who will be called upon to approve the main contractual elements (articles of association, cohesion agreements, cross-guarantee arrangements) and the organizational arrangements are being revised in order to strengthen internal decision-making mechanisms in line with market best practice.

Extraordinary contributions to the National Resolution Fund (BRRD)

As reported in the annual report at December 31, 2016, an appeal was filed with the Regional Administrative Court concerning the criteria for the calculation of contributions requested for 2015 and 2016. Following the hearing of a request for the Regional Administrative Court to order a stay, it was determined that jurisdiction lay with the European Court of Justice, not the Italian courts. Consequently, on July 28, 2017, an appeal was lodged with the Court against the Single Resolution Board and the European Commission, both headquartered in Brussels.

Fondo Atlante

With a press release issued on July 27, 2017, the Board of Directors of Quaestio Capital Management SGR S.p.A. announced that it had determined the value of units in Fondo Atlante and Fondo Atlante II at June 30, 2017. The value of a unit in Fondo Atlante was calculated to be €78,100.986, reflecting the writeoff of the value of the Veneto banks in which an interest was held. It represents a decrease of about 80% in their nominal value.

The residual value of the fund was represented exclusively by the investment in Fondo Atlante II. The value of a unit in Fondo Atlante II was determined to be €352,175.666, reflecting the cost value of the investments made to date.

In consideration of the foregoing, the asset management company is assessing the possibility of liquidating Fondo Atlante, which will be analyzed and discussed with the representatives of the investors.

Accordingly, the Iccrea Group has valued the 40 units subscribed in Fondo Atlante to reflect their fair value at June 30, 2017.

Ratings

On January 19, 2017, Fitch Ratings confirmed the medium/long-term debt rating of "BBB-" with an "evolving" outlook.

With regard to relations with the other rating agencies, the ratings reported in the 2016 annual report have been confirmed:

- Fitch Ratings: a long-term debt rating to "BBB-" and an "evolving" outlook (January 26, 2016);

- Standard & Poor's: a medium/long-term debt rating of "BB", with a "stable" outlook (December 16, 2016);

Main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation (TUF)

The control activities and processes relating to the generation of the information required for the preparation of the financial reports (annual and interim financial statements) are an integral part of the Bank's general control system for managing risks.

While noting that no internal control system can entirely eliminate the risks of error or fraud, but can only measure those risks and lessen the likelihood of occurrence and mitigate the effects, these features seek to provide a reasonable guarantee of the veracity, accuracy, reliability and timeliness of financial reporting.

The control system is based upon two primary guidelines.

- information is entered into the accounting system automatically, semi-automatically and manually by a large number of units within the bank, whose transactions are handled by different subsystems. The line control processes are therefore incorporated either into IT and management procedures for transactions or assigned to specially-formed units. Organizational procedures assign the duties of verifying the accounting records to the heads of the organizational units. Second-level controls are performed by the organizational unit responsible for managing the general accounts and preparing the annual and interim reports. Controls are performed daily, weekly or monthly depending upon the type and frequency of the transactions processed.
- the valuation components that have the greatest impact on the financial statements are delegated to specialized structures. The data relating to the fair value of balance sheet items, in addition to those for hedging relationships and the related effectiveness tests, are supplied by specialized structures equipped with appropriate calculation tools. The data are then re-examined by the Risk Management unit and the Administration unit of the Bank. Data concerning the classification and measurement of non-performing loans are provided by highly specialized, appropriately separated structures that operate on the basis of detailed procedures approved by the Board of Directors.

The annual and interim financial statements are audited by Ernst & Young SpA, which also conducted an accounting review pursuant to Art. 14 of Legislative Decree 39/2010.

Regarding the "Transparency Directive", the Bank has chosen Luxembourg as its home Member State, since most of its securities have been issued on that country's exchange. For this reason, given that the relevant legislation does not require it, no Financial Reporting Officer (as provided for in the Consolidated Law on Financial Intermediation) has been appointed.

Transactions with related parties

Iccrea Banca has long conducted its operations in compliance with the principles of transparency and of substantive and procedural propriety in its transactions with related and associated parties, in line with legislative and regulatory provisions and IAS 24.

In order to rationalize the procedures put in place to guard against potential conflicts of interest, the Board of Directors of Iccrea Banca at its meeting of December 21, 2016 approved – in accordance with the Bank of Italy's instructions on risk activities and conflicts of interests with associated persons for banks and banking groups (Bank of Italy Circular no. 263 of December 27, 2006), Art. 136 of the Consolidated Law on Banking and Art. 2391 of the Italian Civil Code – the new "Policy for handling transactions with related parties and rules on conflicts of interest", available on the Iccrea Banca website.

Accordingly, in the first half of 2017, transactions with related parties were conducted in a manner and following standards in line with those applied in normal banking transactions with bank and corporate customers. Such transactions were undertaken on the basis of their specific financial benefit.

More specifically, the Bank did not engage in any atypical or unusual transactions during the period whose significance or scale might have raised concerns about the integrity of the company's financial position.

In the section "Transactions with related parties" of the explanatory notes, a summary table reports related party transactions.

Specifically, it reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

It also reports investments in the Bank and in the companies controlled by the Bank held by directors, members of the Board of Auditors, the General Manager and key management personnel either directly or indirectly through subsidiaries, trust companies or other intermediaries, including those held by spouses who are not legally separated or by minor children.

The Bank engaged in intercompany transactions that were deemed mutually financially beneficial and arrived at the applicable terms and conditions in accordance with the principles of substantive fairness inherent in the common goal of creating value for the entire Group.

Information on human resource management and industrial relations

With regard to human resource management and development, a great deal of focus was placed on managing internal processes for communicating the five Group Values (Cooperation, Excellence, Openness, Merit and Courage) serving as a point of reference for all employees.

In 2017 the Group continued a comprehensive training program that, after receiving input from the professional families on their needs, provided all employees with a training plan covering all the relevant areas (conduct, technical and specialized skills, mandatory regulatory compliance, IT, foreign languages, etc.).

Under the umbrella of the IBG Academy, the Group continued to carry out the series of advanced training meetings for Directors on the European Banking Union's regulatory framework.

Research and development

In the first half of 2017 the Group did not conduct any research and development activities.

Joint document by the Bank of Italy/Consob/ISVAP no. 2 of June 6, 2009 and no. 4 of March 3, 2010

These financial statements have been prepared in accordance with the general principles established by IAS 1 "Presentation of financial statements". They therefore provide information on the assumption that the company is a going concern, allocating costs and revenues on an accruals basis, avoiding the offsetting of assets and liabilities and costs and revenues.

IAS 1, paragraph 24 requires that all factors and circumstances be considered that may be important in assessing compliance with going concern requirements. Certain indicators may be particularly significant in the current economic environment.

To this end, we have considered the indicators in relation to the Bank and set out in section 8 of Document 570 "Going concern" issued by the Italian accounting profession, listed below:

<u>Financial indicators:</u>

- the entity is not insolvent or have negative net working capital;
- the entity does not have any fixed-term loans close to maturity with no likelihood of renewal or repayment;
- the entity is not excessively dependent on short-term loans to finance long-term activities;
- there are no indications of termination of financial support from lenders and other creditors;
- the entity has no historical or prospective financial statements showing negative cash flows;
- the main economic-financial indicators are not negative;
- there are no substantial operating losses or significant impairment of assets that generate cash flow;
- there has been no lack or interruption of dividends;
- the entity has the ability to repay debt at maturity;
- the entity has the ability to comply with the contractual clauses of loans;
- the entity has experienced a change in the form of payment demanded by suppliers from "on credit" to "payment on delivery";
- the entity has the ability to obtain financing to develop new products or make any further investments it requires.

<u>Management indicators:</u>

- the entity has not lost directors or key managers who cannot be replaced;
- the entity has not lost any fundamental markets, distribution contracts, concessions or key suppliers;
- the entity has not had any difficulties in maintaining staff levels or in obtaining a normal flow of supplies from important suppliers.

<u>Other indicators</u>

- the entity has not experienced a reduction in equity to below legal limits or non-compliance with other provisions of law;
- the entity has no legal and tax disputes under way which, if lost, could give rise to obligations to pay

indemnities that the entity would be unable to discharge;

- there have not been any changes in legislation or government policy that could have an adverse impact on the entity.

The Bank therefore feels that it can reasonably expect to continue operating in the future. The directors have carefully assessed this aspect and therefore believe that they can confirm that the Bank is a going concern on the basis of the reasons given in the report on operations – the targets and policies for the assumption, management and hedging of risks.

Treasury shares

The Ordinary Shareholders Meeting of June 23, 2017 authorized the establishment of a non-distributable reserve of up to €31 million for own shares held by the Bank and Bank shares held by the subsidiary Banca Sviluppo.

10. SUBSEQUENT EVENTS AND OUTLOOK

On July 27, 2017 the general audit begun by the Finance Police on May 8 was completed. The audit report found no substantive violations, only formal errors that could give rise to penalties and interest estimated at no more than about €17 thousand if the Revenue Agency should decide to pursue the case.

Looking forward, the 2017-2019 Business Plan, approved in early 2017, rests on two priority objectives:

- a more efficient allocation and an improvement in return on equity. To that end the Group has determined the appropriate actions and expected results for each business unit. The actions have been grouped in categories based on scope:

- business development (growth);
- collaboration between business units (cross-selling);
- search for external partnerships in sectors in which it would like to achieve significant economies of scale;
- improve margins on new business in the lending sector;
- operational efficiency;
- normalization of the cost of risk;
- more efficient utilization of capital;
- contraction or abandonment of business (deleveraging) in operating areas no longer deemed essential following the formation of the Mutual Banking Group.

* The development of digital strategies centered on the following pillars:

- the centrality of the customer by integrating and reinforcing the points of contact with the final customer;
- opening architectures to provide opportunities for integration and partnership;
- offering mutual banks a purely digital business solution;
- development of a single IBG/MB CRM system on which a multi-channel distribution model will be built.

Financial statements

BALANCE SHEET

	ASSETS		30/06/2017		31/12/2016 *
10.	Cash and cash equivalents		88,522,153		98,423,950
20.	Financial assets held for trading		471,980,783		420,177,927
30.	Financial assets at fair value through profit or loss		15,139,980		14,558,805
40.	Financial assets available for sale		3,589,502,064		5,650,669,289
50.	Financial assets held to maturity		4,388,352,172		1,600,389,734
60.	Due from banks		30,265,985,724		30,999,441,676
70.	Loans to customers		3,152,113,644		4,181,848,448
80.	Hedging derivatives		7,373,001		15,325,730
90.	Value adjustments of financial assets hedged generically (+/-)		(146,965)		(348,377)
100.	Equity investments		1,185,493,475		1,139,962,602
110.	Property and equipment		12,985,051		12,567,457
120.	Intangible assets		6,496,877		5,681,878
130.	Tax assets		77,297,419		69,899,091
	a) current	43,576,546		39,468,187	
	b) deferred	33,720,873		30,430,904	
	of which Law 214/2011	*2,843,717*		*2,968,715*	
150.	Other assets		214,592,958		186,967,310
	TOTAL ASSETS		**43,475,688,336**		**44,395,565,520**

	LIABILITIES AND SHAREHOLDERS' EQUITY		30/06/2017		31/12/2016 *
10.	Due to banks		21,712,405,266		13.265.098.886
20.	Due to customers		14,012,514,796		24.444.622.415
30.	Securities issued		5,207,664,241		4.207.516.587
40.	Financial liabilities held for trading		511,259,071		422.615.890
60.	Hedging derivatives		45,419,994		51.814.840
80.	Tax liabilities		290,056		1.966.154
	b) deferred	290,056		1,966,154	
100.	Other liabilities		373,421,731		371.378.874
110.	Employee termination benefits		11,507,772		12.262.953
120.	Provisions for risks and charges::		11,841,768		12.445.798
	b) deferred				
	b) other provisions	11,841,768		12,445,798	
130.	Valuation reserves		61,366,833		67.248.992
160.	Reserves		401,193,923		391.785.505
170.	Share premium reserve		4,746,737		4.746.737
180.	Share capital		1,151,045,404		1.151.045.404
190.	Treasury shares (-)		(30,067,699)		(30.067.699)
200.	Net profit (loss) for the period (+/-)		1,078,443		21.084.184
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**43,475,688,336**		**44,395,565,520**

* Iccrea Banca SpA financial statements

INCOME STATEMENT

			30/06/2017		30/06/2016 *
10.	Interest and similar income		99,596,768		125,586,785
20.	Interest and similar expense		(85,918,443)		(94,996,348)
30.	**Net interest income**		**13,678,325**		**30,590,437**
40.	Fee and commission income		178,727,979		173,118,105
50.	Fee and commission expense		(115,438,162)		(113,190,092)
60.	**Net fee and commission income (expense)**		**63,289,817**		**59,928,013**
70.	Dividends and similar income		25,065,202		299,710
80.	Net gain (loss) on trading activities		8,637,006		7,416,434
90.	Net gain (loss) on hedging activities		(379,008)		316,152
100.	Net gain (loss) on the disposal or repurchase of:		24,779,682		50,899,368
	a) loans	8,414		(39,682)	
	b) financial assets available for sale	25,832,159		53,278,931	
	d) financial liabilities	(1,060,891)		(2,339,881)	
110.	Net gain (loss) on financial assets and liabilities designated as at fair value		581,175		1,587,697
120.	**Gross income**		**135,652,199**		**151,037,811**
130.	Net losses/recoveries on impairment:		(30,956,414)		1,980,991
	a) loans	951,515		3,252,324	
	b) financial assets available for sale	(31,722,078)		-	
	d) other financial transactions	(185,851)		(1,271,333)	
140.	**Net income (loss) from financial operations**		**104,695,785**		**153,018,802**
150.	Administrative expenses:		(126,508,277)		(96,293,803)
	a) personnel expenses	(38,839,962)		(26,454,406)	
	b) other administrative expenses	(87,668,315)		(69,839,397)	
160.	Net provisions for risks and charges		(214,016)		(525,589)
170.	Net adjustments of property and equipment		(1,443,367)		(1,458,623)
180.	Net adjustments of intangible assets		(2,351,337)		(2,670,705)
190.	Other operating expenses/income		13,015,884		11,006,076
200.	**Operating expenses**		**(117,501,113)**		**(89,942,644)**
210.	Profit (loss) from equity investments		(223,322)		-
250.	**Profit (loss) before tax on continuing operations**		**(13,028,650)**		**63,076,158**
260.	Income tax expense from continuing operations		14,107,093		(13,412,026)
270.	**Profit (loss) after tax on continuing operations**		**1,078,443**		**49,664,132**
290.	Utile (Perdita) delle attività non correnti in via di dismissione al netto delle imposte		**1,078,443**		**49,664,132**

* Iccrea Banca SpA financial statements

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2017	30/06/2016
10.	**Net profit (loss) for the period**	**1,078,443**	**49,664,132**
	Other comprehensive income net of taxes not recyclable to income statement		
40.	Defined-benefit plans	219,033	(459,198)
	Other comprehensive income net of taxes recyclable to income statement		
90.	Cash flow hedges	434,436	1,996,199
100.	Financial assets available for sale	(6,535,628)	(16,773,301)
130.	**Total other comprehensive income net of taxes**	**(5,882,159)**	**(15,236,300)**
140.	**Comprehensive income (Item 10+130)**	**(4,803,716)**	**34,427,832**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT JUNE 30, 2017

				ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD		CHANGES IN THE PERIOD								
							EQUITY TRANSACTIONS							
	AS AT 31/12/2016	CHANGE IN OPENING BALANCE	AS AT 1/1/2017	RESERVES	DIVIDENDS AND OTHER ALLOCATION	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURYSHARES	STOCK OPTIONS	COMPREHENSIVE INCOME AT 30/06/2017	SHAREHOLDERS' EQUITY AS AT 30/06/2017
Share capital:														
a) ordinary shares	1,151,045,404	-	1,151,045,404	-	-	-	-	-	--	-	-	-	-	1,151,045,404
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	4,746,737	-	4,746,737	-	-	-	-	-	-	-	-	-	-	4,746,737
Reserves:		-			-	-	-	-	-	-	-	-	-	-
a) earnings	389,783,141	-	389,783,141	9,408,418	-	-	-	-	-	-	-	-		399,191,559
b) other	2,002,364	-	2,002,364	-	-	-	-	-	-	-	-	-	-	2,002,364
Valuation reserves	67,248,992	-	67,248,992	-	-	-	-	-	-	--	-	-	(5,882,159)	61,366,833
Equity instruments	-	-	-	-	-	-	--	-	-	-	-	-	-	-
Treasury shares	(30,067,699)	-	(30,067,699)	-	-	-	-	-	-	-	-	-	-	(30,067,699)
Net profit (loss) for the year	**21,084,184**	**-**	**21,084,184**	**(9,408,418)**	**(11,675,766)**		**-**	**-**		**-**	**-**	**-**	**1,078,443**	**1,078,443**
Total shareholders' equity	**1,605,843,123**	**-**	**1,605,843,123**	**-**	**(11,675,766)**		**-**	**-**	**-**		**-**	**-**	**(4,803,716)**	**1,589,363,641**

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the merger of BCC Multimedia, the transfer of properties to Immicra S.r.l. and the transfer of the "branch services" business unit to Banca Sviluppo.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - 2016

				CHANGES IN THE PERIOD										
				ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD			EQUITY TRANSACTIONS							
	AS AT 31/12/2015	CHANGE IN OPENING BALANCE	AS AT 1/1/2016	RESERVES	DIVIDENDS AND OTHER ALLOCATION	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURYSHARES	STOCK OPTIONS	COMPREHENSIVE INCOME AT 31/12/2016	SHAREHOLDERS' EQUITY AS AT 31/12/2016
Share capital:														
a) ordinary shares	216,913,200	934,132,204	1,151,045,404											1,151,045,404
b) other shares														
Share premium reserve		4,746,737	4,746,737											4,746,737
Reserves:														
a) earnings	112,422,929	278,080,481	390,503,410			(720,269)								389,783,141
b) other	82,002,364	(80,000,000)	2,002,364											2,002,364
Valuation reserves	89,087,911	10,880,348	99,968,259			720,269							(33,439,536)	67,248,992
Equity instruments														
Treasury shares		(442,898)	(442,898)					(29,624,801)						(30,067,699)
Net profit (loss) for the year	**9,245,328**	**135,296,508**	**144,541,836**	**(130,349,412)**	**(14,192,424)**								**21,084,184**	**21,084,184**
Total shareholders' equity	**509,671,732**	**1,282,693,380**	**1,792,365,112**					**(29,624,801)**					**(12,355,352)**	**1,605,843,123**

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the merger of BCC Multimedia, the transfer of properties to Immicra S.r.l. and the transfer of the "branch services" business unit to Banca Sviluppo.

"Changes in opening balance" reports the reverse merger of Iccrea Holding into Iccrea Banca. The amount reported reflects the difference between the cancellation of the equity of Iccrea Banca held entirely by the former Parent Company, Iccrea Holding, and the allocation of the merger surplus following the reverse merger.

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2017	31/12/2016
A. OPERATING ACTIVITIES		
1. Operations	**(47,759,328)**	**5,847,302**
- net profit (loss) for the period (+/-)	1,078,443	21,084,184
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	58,808,379	(26,170)
- gains (losses) on hedging activities (-/+)	379,009	(1,572,880)
- net losses/recoveries on impairment (+/-)	31,803,697	21,038,749
- net adjustments of property and equipment and intangible assets(+/-)	3,794,704	8,650,820
- net provisions for risks and charges and other costs/revenues (+/-)	203,443	8,388,234
- taxes, duties and tax credits to be settled (+/-)	(6,665,505)	(740,297)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-
- other adjustments (+/-)	(137,161,498)	(50,975,337)
2. Net cash flows from/used in financial assets	**3,694,523,582**	**2,127,579,831**
- financial assets held for trading	(111,312,340)	(12,884,276)
- financial assets at fair value through profit or loss	-	321,784,046
- financial assets available for sale	2,082,485,243	1,063,867,144
- due from banks: repayable on demand	(924,441,166)	(68,789,789)
- due from banks: other	1,630,459,369	991,393,915
- loans to customers	1,019,005,525	(104,061,515)
- other assets	(1,673,049)	(63,729,694)
3. Net cash flows from/used in financial liabilities	**(863,245,452)**	**(2,270,867,231)**
- due to banks: repayable on demand	(5,690,186)	(338,896,712)
- due to banks: other	8,452,996,567	(48,866,031)
- due to customers	(10,403,990,721)	(1,312,799,416)
- securities issued	979,878,533	(162,353,033)
- financial liabilities held for trading	90,259,365	(54,277,141)
- financial liabilities at fair value through profit or loss	5,608,944	(432,027,552)
- other liabilities	17,692,046	78,352,654
Net cash flows from/used in operating activities (A)	**2,783,518,802**	**(137,440,098)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**860,507,760**	**858,161,140**
- sales of equity investments	-	-
- dividends on equity investments	23,189,760,16	20,843,140,00
- sales of financial assets held to maturity	837,318,000	837,318,000
- sales of property and equipment	-	-
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	-
2. Cash flows used in	**(3,642,252,593)**	**(668,700,176)**
- purchases of equity investments	(45,754,195)	(26,796,262)
- purchases of financial assets held to maturity	(3,591,471,101)	(632,068,428)
- purchases of property and equipment	(1,860,961)	(7,493,449)
- purchases of intangible assets	(3,166,336)	(2,342,037)
- purchases of subsidiaries and business units	-	-
Net cash flows from/used in investing activities (B)	**(2,781,744,833)**	**189,460,964**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	-	(29,624,801,00)
- issues/purchases of equity instruments	-	-
- dividend distribution and other	(11,675,766)	(15,018,247)
Net cash flows from/used in financing activities C(+/-)	**(11,675,766)**	**(44,643,048)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(9,901,797)**	**7,377,818**

RECONCILIATION

	30/06/2017	31/12/2016
Cash and cash equivalents at beginning of period (E)	98,423,950	91,046,131
Net increase/decrease in cash and cash equivalents (D)	(9,901,797)	7,377,818
Cash and cash equivalents: net foreign exchange difference (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	88,522,153	98,423,949

PART A

Accounting policies

A.1 - GENERAL INFORMATION

This section sets out the accounting policies adopted in preparing the financial statements at June 30, 2017. The presentation of the accounting policies – which are agreed at the Group level - is broken down into the stages of classification, recognition, measurement and derecognition for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Section 1: Declaration of conformity with the International Accounting Standards (IAS/IFRS)

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, these financial statements of Iccrea Banca have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These interim financial statements have been prepared in accordance with IAS 34 and have been drafting using the main tables set out in Circular no. 262 of December 22, 2005 on the format and rules for preparation of bank financial statements – 4th update of December15, 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005. These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the interim financial statements were those in force at June 30, 2017as endorsed by the European Commission (including the interpretations issued by the SIC and the IFRIC).

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2017:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	IFRS 15 Revenue from contracts with customers. The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
2067/2016	IFRS 9 Financial instruments The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

The following table reports new international accounting standards issued by the IASB that have not yet entered force:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	IFRS 16 Leases The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	IFRS 17 Insurance contracts The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.

The following section provides disclosures on the implementation within the Iccrea Banking Group of IFRS 9 – Financial instruments, endorsed with Regulation (EU) 2067/2016. The other regulations do not affect the Bank's financial position and performance.

The Iccrea Banking Group began work on the IFRS 9 project in September 2016, following a preliminary assessment conducted in 2014 to obtain an initial estimate of the potential impacts of the introduction of the standard.

The IFRS 9 implementation project for the Group is structured along the three lines in which the standard is organized: Classification and Measurement (C&M), Impairment and Hedge Accounting.

For each of these lines, also called macro-areas, the project has been broken down into the phases of: assessment, solution design (methodological, organizational and technological), implementation and testing.

The assessment and design phases for the Group have been completed and the implementation of the identified solutions is now under way.

The main activities in the Classification and Measurement area have been as follows:

- the business models for each Iccrea Banking Group company have been defined;
- the functional requirements for SPPI testing have been developed and agreed within the Group, and a run of tests was conducted with a sample portfolio of securities and loans. More specifically, a qualitative analysis of the Group's securities and loans was completed for the purposes of SPPI testing, while the elements and characteristics of the contractual flows that enable classification as SPPI compliant or not were analyzed and defined (e.g. Cap/Floor, Leverage, Prepayment Option, Term Extension, Additional Tier 1, Exchanged, etc.);
- the definition of operating scenarios has been completed for the purposes of identifying that main organizational, process and technology impacts in order to begin implementation of the C&M project;
- clustering of the main financial instruments is under way;
- the project results were incorporated into specific policy documents and processes aimed at governing the transition to the new standard. Obviously, fine tuning is also under way in order to enable decision-making in line with the decisions that will be made at the level of the national and international banking industries;
- with specific regard to organizational measures concerning the establishment of policies and upgrading of internal processes, the necessary amendments of documentation required to ensure compliance with the standard are being finalized;
- software selection has been completed and implementation activities for calculating the SPPI test and the associated benchmark testing have been initiated.

With regard to Impairment:

- the impairment calculation solutions were defined on the basis of the specific features of each Group company, with specific reference to stage allocation and estimation of risk parameters (PD, LGD and EAD). Fine tuning is under way;
- the findings of the first impact simulation for the Group's loan and securities portfolio were assessed and shared;
- the project results were incorporated into specific policy documents and processes aimed at governing the transition to the new standard. Obviously, fine tuning is also under way in order to enable decision-making in lie with the decisions that will be made at the level of the national and international banking industries;
- with specific regard to organizational measures concerning the establishment of policies and upgrading of internal processes, the necessary amendments of documentation required to ensure compliance with the standard are being finalized;
- work was completed on software selection and implementation was initiated for calculating the IFRS 9 risk parameters, staging and impairment.

With regard to the Hedge Accounting area, an impact analysis was conducted of the IFRS 9 requirements with regard to both the Group's existing hedge relationships and to serve the effectiveness testing provided to participating mutual banks. An analysis was also conducted of the pros and cons of adopting the general IFRS 9 hedge accounting model. In the light of the findings of that analysis, the Iccrea Banking Group decided to postpone adoption of the new IFRS 9 hedge accounting model until after January 1, 2018.

Finally, the Iccrea Banking Group, like all European groups, underwent inspection (a "thematic review") by the European Central Bank with regard to the IFRS 9 project. We were asked to complete a template and provide documentation demonstrating the analysis/assessments conducted by the Group concerning IFRS 9 macro-areas.

Section 2: General preparation principles

The interim financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements, along with the report on operations and the performance and financial position of Iccrea Banca. In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency.

The financial statements are expressed in euros, while unless otherwise specified the figures in the explanatory notes and the report on operations are expressed in thousands of euros.

The interim financial statements were prepared by applying the general principles set out in IAS 1 and the specific accounting policies endorsed by the European Commission and described in Part A.2 of these explanatory notes, as well as the general Framework for the Preparation and Presentation of Financial Statements issued by the IASB. No exceptions have been made in applying the IASs/IFRSs.

The interim financial statements and the accompanying explanatory notes set out, for the balance sheet, the figures for the present period as well as comparative figures at December 31, 2016, while the income statement reports the comparative figures for the same period of the previous year.

The financial statements and the accompanying notes have been prepared in accordance with Bank of Italy Circular no. 262/2005, as updated to incorporate changes that have been made to the IASs/IFRSs and to improve a number of the tables in the notes in order to better reflect the harmonized European supervisory disclosure model forms.

RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES

In conformity with the IFRS, management is required to formulate assessments, estimates and assumptions that impact the application of accounting standards and the values of the assets, liabilities, costs and revenues recognized in the financial statements. The estimates and the associated assumptions are based on prior experience and other factors considered reasonable in the circumstances. They have been adopted in order to estimate the carrying amount of assets and liabilities whose value cannot easily be determined on the basis of other information.

Estimation processes were used to support the value of some of the largest items recognized in the financial statements at June 30, 2017, as provided for by the accounting standards and applicable legislation referred to earlier.

These processes are largely based on the estimation of the future recoverability of the carrying amounts in accordance with the rules established by applicable regulations. They were performed on the basis of consideration of the Bank as a going concern, i.e. excluding the possibility of the forced liquidation of the items being measured.

The estimation process supported the carrying amounts recognized at June 30, 2017. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

The parameters and the other information used in verifying the carrying amounts were therefore substantially impacted by those factors, which could undergo rapid changes that cannot currently been foreseen, making it impossible to rule out consequent effects of the future values of those items.

The estimates and assumptions are reviewed regularly. Any changes made as a result of such reviews are recognized in the period in which the review was conducted where such review involved only that period. Where the review affects both current and future periods, any changes are recognized in the period in which the review was conducted and in the related future periods.

Content of the financial statements

BALANCE SHEET AND INCOME STATEMENT

The balance sheet and the income statement contain items, sub-items and further information (the "of which" for items and sub-items). items without values for the reference period and the previous period are not included. In the income statement, revenues are shown without indicating their sign, while cost figures are shown within parentheses.

STATEMENT OF COMPREHENSIVE INCOME

The items concerning other comprehensive income after taxes in the statement of comprehensive income report changes in the value of assets recognized in the valuation reserves. Items without balances for the year and for the previous year are not reported. Negative amounts are presented between parentheses.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders' equity. No equity instruments other than ordinary shares have been issued.

STATEMENT OF CASH FLOWS

The statements of cash flows for the present and the previous period were prepared using the indirect method, under which cash flows from operating activities are represented by the profit (loss) for the period, adjusted for the impact of non-monetary transactions. Cash flows are broken down into cash flows from/used in operating activities, investing activities and financing activities. Cash flows generated during the period are shown without a sign, while those used are shown within parentheses.

NOTES TO THE FINANCIAL STATEMENTS

The explanatory notes to the financial statements include the information required by international accounting standards and the Bank of Italy Circular no. 262/2005 – 4th update of December 15, 2015.

To provide as accurate a picture as possible, the titles of sections pertaining to items for which no figures have been reported for either the present period or the previous period are also included.

Section 3: Events subsequent to the reporting date

As required under IAS 10, we report that no event occurred subsequent to the reporting date that would have materially altered the figures reported in the financial statements.

For information on events that occurred subsequent to the end of the period, please see the report on operation.

Section 4: Other information

CONSOLIDATED TAX MECHANISM OPTION

Iccrea Banca SpA and all the Group companies adopt the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation –along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company. Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

OTHER ISSUES

The interim financial statements have undergone a limited audit by E&Y S.p.A., which was engaged to perform statutory audit functions for the 2010-2018 period in implementation of the resolution of the Shareholders' Meeting of April 22, 2010.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

During 2008, as envisaged under Regulation (EC) no. 1004/2008 approved by the European Commission on October 15, 2008 containing amendments to IAS 39 and IFRS 7 on the reclassification of financial assets, Iccrea Banca availed itself of the option to reclassify to the "available-for-sale" category financial instruments initially recognized among "financial assets held for trading". The impact on performance and the financial position for the current period of that previous reclassification are reported in the individual sections of the explanatory notes.

1 – Financial assets held for trading

CLASSIFICATION

This category includes financial assets, regardless of their technical form, held for short-term trading purposes. It includes derivatives with a positive value, including those resulting from the separation of embedded derivatives, that are not deemed to be effective for hedging purposes.

Reclassification to other categories of financial asset is not permitted except in the event of unusual circumstances that are unlikely to recur in the short term.

In these cases, debt and equity securities no longer held for trading may be reclassified to other categories envisaged by IAS 39 where the requirements for such recognition have been met (financial assets held to maturity, financial assets available for sale, loans and receivables). The transfer value is given by the fair value at the time of the reclassification. The presence of any embedded derivatives to be separated is assessed at the time of the reclassification.

RECOGNITION

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trading date. Financial assets held for trading are initially recognized at fair value, which is usually the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts that have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified independently as derivative contracts are recognized separately among financial assets held for trading, except in cases where the compound host instrument is measured at fair value through profit or loss. After separating the embedded derivative, the host contract is then treated in accordance with the accounting rules for its category.

MEASUREMENT

Financial assets held for trading are measured at fair value following initial recognition. The effects of the application of this treatment are recognized through profit or loss.

For financial instruments listed on active markets, the fair value of financial assets or liabilities is determined on the basis of the official prices observed at the balance sheet date. For financial instruments, including equity securities, that are not listed on active markets, fair value is determined using valuation techniques and market information, such as the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

For equity securities, units in collective investment undertakings and derivative instruments with equities as underlyings not listed on an active market, if the fair value obtained using such valuation techniques cannot be reliably determined, the financial instruments are measured at cost.

DERECOGNITION

Financial assets held for trading are derecognized when the contractual rights to the cash flows expire, or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties..

RECOGNITION OF INCOME COMPONENTS

The results of the measurement of financial assets held for trading are recognized through profit or loss. Dividends from equity instruments held for trading are recognized in the income statement when the right to receive payment accrues.

2 – Financial assets available for sale

CLASSIFICATION

This category includes financial assets, other than derivatives, that are not classified in the balance sheet as “financial assets held for trading”, “financial assets at fair value through profit or loss”, “financial assets held to maturity”, “due from banks” or “loans to customers”.

Specifically, the item includes: shareholdings not held for trading and not qualifying as a subsidiary, associate or joint venture, units in investment funds that are unlisted or listed but traded infrequently, specific bonds, identified on a case-by-case basis with respect to the purpose for which they are purchased/held.

In cases permitted by the applicable accounting standards, financial assets available for sale may only be reclassified to “financial assets held to maturity” except in the event of unusual circumstances that are unlikely to recur in the short term. Debt securities may be reclassified to other categories envisaged by IAS 39 (financial assets held to maturity, loans and receivables) where the requirements for such recognition have been met.

The transfer value is given by the fair value at the time of the reclassification.

RECOGNITION

Available-for-sale financial assets are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

Financial assets are initially recognized at fair value, which is generally the amount paid or received. Where the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the two amounts is recognized through profit or loss. The initial recognition value includes direct transaction costs or revenues determinable at the recognition date, even if settled at a later time.

Where, in the cases permitted by the applicable accounting standards, the assets are recognized following reclassification from financial assets held to maturity or, in the event of unusual circumstances, from financial assets held for trading, the value at which they are recognized shall be their fair value at the time of the transfer.

MEASUREMENT

Following initial recognition, financial assets available for sale are measured at fair value, with the value corresponding to the amortized cost recognized in the income statement. Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized or they incur an impairment loss. Upon disposal or the recognition of an impairment loss, the cumulative gain or loss recognized in the equity reserve is reversed to the income statement.

Fair value is determined using the criteria adopted for financial assets held for trading.

Equity securities included in this category, the units of collective investment undertakings and derivatives on equity securities whose fair value cannot be determined reliably (they are not quoted on an active market) are carried at cost.

Available-for-sale financial assets are subject to impairment testing to determine whether there is objective evidence of impairment. Where impairment is found, the amount of this loss is measured as the difference between the carrying value and the fair value.

Where the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, writebacks are recognized in the income statement for loans or debt securities and in an equity reserve in the case of equity instruments. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

IMPAIRMENT TESTING OF FINANCIAL ASSETS AVAILABLE FOR SALE

As required by the IFRS, financial assets available for sale undergo impairment testing in order to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable. The identification of any impairment involves the verification of the presence of evidence of possible impairment and the determination of any writedown.

Impairment indicators are essentially divided into two categories: indicators based on internal factors concerning the company being assessed – qualitative indicators - and, for equity securities, external quantitative indicators based on the market values for the entity.

The first category includes the following factors: the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency. As regards the second category, the key factors include a significant or prolonged reduction in fair value below the carrying amount. More specifically, a significant or prolonged reduction is a decline in fair value of over 30%, or an continuous reduction of more than 18 months. If one of these thresholds is crossed, an impairment loss is recognized on the security. If those thresholds are not breached but there is other evidence of impairment, the recognition of an impairment loss must be supported by specific analysis of the security and the investment.

DERECOGNITION

Available-for-sale financial assets are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from changes in the fair value are recognized in a special equity reserve until the asset is derecognized. The value corresponding to the amortized cost of available-for-sale financial assets is recognized through profit or loss.

Available-for-sale financial assets are subject to impairment testing to determine whether there is objective evidence of impairment. Where impairment is found, the cumulative loss directly recognized in equity is reversed to the income statement. The amount of this loss is measured as the difference between the purchase cost (net of any amortization and repayments of principal) and the fair value, less any impairment loss previously recognized in the income statement. Where the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, writebacks are recognized in the income statement for loans or debt securities and in an equity reserve in the case of equity instruments. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

In addition to the recognition of impairment losses, the cumulative gains or losses in the equity reserve are, as mentioned above, recognized in the income statement (under item 100 "Net gain (loss) on the disposal or repurchase of financial assets available for sale") at the time of the sale of the asset. Dividends in respect of equity instruments available for sale are recognized through profit or loss when the right to receive payment accrue.

3 – Financial assets held to maturity

CLASSIFICATION

This category comprises listed debt instruments with fixed or determinable payments and a fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

In the circumstances permitted by the applicable accounting standards, such assets may only be reclassified as financial assets available for sale. If more than an insignificant amount of such instruments should be sold or reclassified during the year before their maturity, the remaining financial assets held to maturity would be reclassified as financial assets available for sale and it would not be permitted to classify instruments in this category for the subsequent two years, unless the sales or reclassifications:

– are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

– occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

– are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

RECOGNITION

Financial assets held to maturity are recognized at the settlement date.

Such financial assets are initially recognized at fair value, including any directly attributable costs and income.

If the financial assets are recognized in this category as a result of reclassification from financial assets available for sale or, in the case of unusual events, from financial assets held for trading, the fair value of the assets at the reclassification date is deemed to be the new amortized cost of the assets.

MEASUREMENT

Subsequent to initial recognition, financial assets held to maturity are measured at amortized cost, using the effective interest rate method.

Gains or losses in respect of financial assets held to maturity are recognized through profit or loss at the time the assets are derecognized or impaired and through the amortization of the difference between the carrying amount and the amount repayable at maturity.

Assets held to maturity are evaluated for objective evidence of impairment.

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognized in profit or loss.

If the reasons for the impairment loss should no longer obtain following an event occurring after the impairment was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount that exceeds what the amortized cost would have been in the absence of the previously recognized impairment losses.

DERECOGNITION

The financial assets are derecognized only when a disposal transfers substantially all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the assets continue to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

Gains or losses in respect of assets held to maturity are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, as well as through the process of amortization of the difference between the carrying amount and the amount repayable at maturity.

4 – Loans and receivables

CLASSIFICATION

Amounts “due from banks” and “loans to customers” include loans, whether disbursed directly or acquired from third parties, with fixed or determinable payments, that are not listed on an active market and that are not classified as: “Financial assets held for trading”; “Financial assets at fair value through profit or loss”; or “Financial assets available for sale”. This category includes any securities with characteristics similar to loans and receivables. It also includes operating loans and repurchase transactions. Reclassification to the other categories of financial assets envisaged by IAS 39 is not permitted.

RECOGNITION

Loans and receivables are initially recognized in the balance sheet at the disbursement date or, in the case of debt securities, at the settlement date. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenues directly attributable to the transaction and determinable from the inception of the transaction, even if settled at a later time. The initially recognized amount does not include costs to be reimbursed by the debtor or that can be characterized as normal administrative overhead costs.

The initial recognition amount of loans disbursed at non-market conditions is equal to the fair value of the loans, determined using valuation techniques. The difference between the fair value and the amount disbursed or the subscription price is recognized through profit or loss.

Securities repurchase transactions are recognized as funding or lending transactions. Transactions involving a spot sale and a forward repurchase are recognized as payables in the amount received spot, while those involving a spot purchase and a forward sale are recognized as receivables in the amount paid spot.

Transactions with banks through correspondent accounts are recognized at the time of settlement and, therefore, these accounts are adjusted for all non-liquid items regarding bills and documents received or sent registered as ‘subject to collection’ or after actual collection.

Where, in the event of unusual circumstances, the assets are recognized in this category following reclassification form financial assets available for sale or from financial assets held for trading, the fair value of the assets at the date of reclassification shall be deemed to be the new amortized cost of the assets.

MEASUREMENT

Following initial recognition, loans are measured at amortized cost. The amortized cost equals the amount at which a financial asset is measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction (directly or through the use of a provision) due to impairment or non-recoverability.

Amortized cost is not used for very-short-term loans, loans without a specified maturity or revocable loans, for which the impact of this method can be considered not material. These positions are measured at cost.

The loan portfolio undergoes testing for impairment periodically and in any event at the close of each reporting period. Impaired positions include bad debts, substandard loans, restructured positions and loans past due or overlimit, in accordance with the Bank of Italy's current rules, in line with the provisions of the IAS/IFRS.

Impairment loss is recognized only when, subsequent to initial recognition, events have occurred that give rise to objective evidence of impairment such as to cause a change in the reliably estimated cash flows.

Loans for which there is objective evidence of impairment are measured individually. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows, calculated by applying the original effective interest rate.

Measurement takes account of the "maximum recoverable" amount, which corresponds to the greatest estimate of expected future cash flows in respect of principal and interest payments. Also taken into consideration is the realizable value of any guarantees excluding recovery costs, recovery times estimated based on contractual maturities, if any, and on reasonable estimates in the absence of contractual provisions, and the discount rate, which is the original effective interest rate. For impaired positions at the transition date, where determining this figure would be excessively burdensome, the Bank has adopted reasonable estimates, such as the average rate of loans for the year in which the loan was first classified as a bad debt, or the restructuring rate.

In measuring loans individually, cash flows from loans for which short-term recovery is expected are not discounted. The original effective interest rate of each loan remains unchanged unless the position undergoes a restructuring that involves a change in the contractual interest rate, including when it becomes an interest-free loan.

Loans for which no objective evidence of impairment has been found undergo collective impairment testing, with the creation of groups of positions with uniform credit risk profiles. The writedown is determined based on historic loss rates for each group. In determining the time series, individually measured positions are removed from the group of loans being measured. Writedowns determined collectively are taken to the income statement. Guarantees also undergo impairment testing in a manner analogous to individual impairment testing. Any writedowns are recognized through profit or loss.

DERECOGNITION

Loans are derecognized when they fall due or are transferred. Loans transferred are derecognized only when substantially all the risks and rewards of ownership of the loans are transferred. If a significant portion of the risks and rewards of ownership of a transferred loan has been retained, the loan continues to be recognized even though legal title to the loan has been transferred.

Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the loan is derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the loan continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred loans and changes in their cash flows.

Transferred loans are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

IFRS 1 established a specific exemption to the application of derecognition rules for transfers of financial assets, including securitization operations, occurring prior to January 1, 2004. By virtue of this exemption, for securitizations carried out before that date, the company may elect to continue to apply the previous accounting rules or to adopt the provisions of IAS 39 retrospectively, starting from a date selected by the entity, provided that the information required to apply IAS 39 to assets previously derecognized was available at the time of initial recognition of the these operations. Therefore, the Bank, in compliance with the accounting policies of the Group, has decided to apply the current accounting rules for securitization operations carried out before January 1, 2004.

RECOGNITION OF INCOME COMPONENTS

Following initial recognition, loans are measured at amortized cost, which equals the amount at which the assets are measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount (usually attributable to costs and revenues directly attributable to the individual position) and plus or minus any writedowns/writebacks. The effective interest rate is the rate that exactly discounts the estimated future cash flows generated by the loan in respect of principal and interest to the amount disbursed including costs and revenues attributable to the loan. This accounting treatment makes it possible to distribute the economic impact of costs and revenues over the expected remaining life of the loan.

The amortized cost method is not used for short-term loans where the impact of discounting can be considered negligible. Short-term loans are valued at cost. The same approach is adopted for loans without a specified maturity or those subject to revocation.

Impairment losses, as defined in the preceding sub-section on measuring loans, are recognized in the income statement. If the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, a writeback is taken to the income statement. The value of the asset after the writeback shall not in any event exceed the amortized cost that the instrument would have had in the absence of the prior writedown.

Writebacks connected with the passage of time, corresponding to interest accrued during the period based on the original effective interest rate previously used to calculate impairment losses, are recognized among writebacks for impairment

5 – Financial assets at fair value through profit or loss

CLASSIFICATION

The item "Financial assets at fair value through profit or loss" includes financial assets that have been designated as at fair value through profit or loss as from their initial recognition, in accordance with the requirements for the classification of that item, regardless of their technical form. No reclassifications to other categories of financial assets are permitted.

RECOGNITION

Financial assets at fair value through profit or loss are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial assets is at fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial asset is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

After initial recognition, financial assets reported under this item are measured at fair value through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial assets held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

DERECOGNITION

Financial assets at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred.

Where it is not possible to ascertain whether substantially all the risks and rewards of ownership have been transferred, financial assets are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the asset continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows. Financial assets sold are derecognized in the event in which the contractual rights to receive the related cash flows are retained with the simultaneous assumption of an obligation to pay such flows, and only such flows, to other third parties.

RECOGNITION OF INCOME COMPONENTS

The result of the measurement is recognized in the income statement. On the basis of the provisions of Article 6 of Legislative Decree 38 of February 28, 2005, the part of the profit for the period, corresponding to the capital gains recognized in the income statement, net of the associated tax expense, originated by the application of the fair value criterion, is allocated to an unavailable reserve that is reduced by an amount corresponding to the capital gains realized. The amount allocated to the unavailable reserve refers to capital gains relating to financial instruments among assets and liabilities not operationally hedged by derivative instruments, and to those on operationally hedged financial instruments for the part exceeding the associated capital losses.

6 – Hedging

CLASSIFICATION

Risk hedging transactions are intended to neutralize the potential losses recognized on a given element or group of elements attributable to a given risk in the event that risk should actually be realized.

The types hedges used are as follows:

- fair value hedges, which are intended to hedge the exposure to changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to changes in the future cash flows attributable to specific risks associated with items. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending;

Only instruments that involve a non-Group counterparty can be designated as hedging instruments.

The items “hedging derivatives” among assets and liabilities include the positive and negative values of derivatives that are part of effective hedging relationships.

RECOGNITION

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. Where there is formal documentation of the relationship between the hedged item and the hedging instrument, a hedge is considered effective if, at inception and throughout its life, the changes in the fair value of the hedged item or the related expected cash flows are almost entirely offset by those of the hedging instrument.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value.
More specifically:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset with the change in the fair value of the hedging instrument: this offsetting is effected by recognizing the changes in value through profit or loss, both for the hedged item (as regards changes produced by the underlying risk factor) and for the hedging instrument; any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

The derivative is designated as a hedging instrument where there is formal documentation of the relationship between the hedged item and the hedging instrument and if it the hedge is effective at the moment of inception and throughout its life.

The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged item or the associated cash flows are offset by those of the hedging instrument. Accordingly, effectiveness is determined taking account of those changes, taking account of the intentions of the entity at the time the hedge is established.

A hedge is deemed effective when the changes in fair value (or in cash flows) of the hedging instrument nearly entirely offset (i.e. within a range of 80-125%) changes in the hedged instrument for the risk factor being hedged.

Effectiveness is measured at every reporting date through:

- prospective tests, which justify the use of hedging accounting, as they demonstrate the hedge’s expected effectiveness;
- retrospective tests, which indicate the level of effectiveness of the hedge achieved in the period under review, measuring the difference between actual results and theoretical results (perfect hedges).

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category.

DERECOGNITION

If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in fair value are recognized in the income statement. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed to the income statement.

7 – Equity investments

CLASSIFICATION

The item includes equity investments in subsidiaries, associates and joint ventures.

IFRS 10 establishes that, in order to have control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and must also be exposed to the variability of the returns deriving from that power.

Under the standard, the requirement of control is met when an investor simultaneously has:

- the power to direct the relevant activities of the entity;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power over the investee to affect the amount of the investor's returns (link between power and returns).

Joint ventures are companies in which control is shared with other parties by contract. Associates are companies in which the Bank holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Bank exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control. Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Only factors that exist at the level of the separate financial statements (percentage of ownership, effective and potential voting rights, de facto situations of significant influence) are used in determining whether a holding is classified as an equity investment. Subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

RECOGNITION

Equity investments are initially recognized at cost at the settlement date including costs and revenues that are directly attributable to the transaction.

MEASUREMENT

Investments in subsidiaries, associates and joint ventures are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized in the income statement as an impairment loss.

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

As required by the IFRS, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;
- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

DERECOGNITION

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IAS 39, as provided for financial instruments.

Equity investments are derecognized when the contractual rights to the cash flows from the assets expire or when substantially all the risks and rewards connected with ownership of the equity investment are transferred.

RECOGNITION OF INCOME COMPONENTS

Dividends received from equity investments measured at cost are recognized in the income statement when the right to receive the payment accrues. Impairment losses on subsidiaries, associates and joint ventures valued at cost are recognized in the income statement. If the reasons for the impairment should cease to obtain subsequent to the recognition of the impairment loss, a writeback is taken to the income statement.

8 – Property and equipment

CLASSIFICATION

Property and equipment includes land, buildings used in operations, investment property, technical plant, furniture and equipment. This item includes assets that are used in providing goods and services, rented to third parties, or used for administrative purposes for a period of more than one year. The item also includes assets held under finance leases, although legal ownership remains with the lessor.

RECOGNITION

Property and equipment is recognized at cost, which in includes all incidental expenses directly attributable to purchasing and placing the asset in service.

Expenses subsequently incurred increase the carrying amount of the asset or are recognized as separate assets if it is likely that the future economic benefits will exceed initial estimates and the costs can be reliability calculated.

All other subsequent expenses (e.g. ordinary maintenance costs) are recognized in the income statement in the year incurred.

This item also includes assets held under finance leases for which substantially all the risks and rewards of ownership have been assumed. These assets are initially recognized at a value equal to the lesser of the fair value and the present value of the minimum payments provided for under finance lease. This amount is subsequently subject to depreciation.

MEASUREMENT

Property and equipment, used in operations is measured at cost less depreciation and impairment. Depreciation is determined systematically over the remaining useful life of the asset.

The depreciable value is represented by the cost of the assets since the residual value at the end of the depreciation process is considered negligible. Buildings are depreciated at a rate of 3% per year, deemed to appropriately represent the deterioration of the assets over time from their use, taking into account extraordinary maintenance costs, which increase the value of the asset. Land, whether purchased individually or incorporated into the value of a building, is not depreciated.

Investment property under IAS 40, refers to real estate (owned or held through a finance lease) for the purposes of receiving rental income and/or for the appreciation of the invested capital. The fair value model is used for such assets.

DERECOGNITION

Property and equipment is derecognized when disposed of or when permanently withdrawn from use and no future benefits are expected from its disposal.

RECOGNITION OF INCOME COMPONENTS

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset's carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

9 – Intangible assets

CLASSIFICATION

Intangible assets are recognized as such if they are identifiable and are based on legal or contractual rights. They include application software.

RECOGNITION

Intangible assets are recognized at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the period in which it is incurred.

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations that have occurred subsequent to January 1, 2004, is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination, including ancillary costs, if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

MEASUREMENT

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the balance-sheet date.

DERECOGNITION

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to be generated by the use or disposal of the asset.

RECOGNITION OF INCOME COMPONENTS

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, an impairment test is conducted. Any difference between its carrying amount and recoverable value is recognized in the income statement. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

10 – Non-current assets and liabilities and disposal groups held for sale

CLASSIFICATION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the their sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which must be expected to be completed within one year of classification as held for sale.

RECOGNITION

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell. If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are reported in the income statement under “Profit (loss) after tax of disposal groups held for sale”.

DERECOGNITION

Non-current assets and disposal groups held for sale are derecognized upon disposal.

11 – Current and deferred taxation

CLASSIFICATION

Income taxes, which are calculated on the basis of national tax law, are accounted for as a cost on an accruals basis, in line with the recognition of the costs and revenues that gave rise to the tax liability. They therefore represent the balance of current taxes and deferred taxes in respect of income for the year. Current tax assets and liabilities report the net tax positions of the Group companies in respect of Italian and foreign tax authorities. More specifically, they report the net balance between current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax liability for the period, as determined on the basis of applicable tax law, and current tax assets represented by payments on account and other tax receivables for withholding tax incurred or other tax credits for previous years which the Group companies opted to offset against taxes for subsequent years.

Current tax assets also report tax receivables for which the Group companies have requested reimbursement from the competent tax authorities.

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of Iccrea Banca SpA and those of other Group companies are managed separately for administrative purposes.

Deferred taxation is determined using the balance sheet liability method, taking account of the tax effect of temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, which will give rise to taxable or deductible amounts in future periods. To that end, "taxable temporary differences" are those that in future periods will give rise to taxable amounts and "deductible temporary differences" are those that in future periods will give rise to deductible amounts.

Deferred tax is calculated by applying the tax rates established in applicable tax law to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test). Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

RECOGNITION AND MEASUREMENT

Where the deferred tax assets and liabilities regard items that impact profit or loss, that effect is recognized under income taxes.

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments available for sale or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

The potential taxation in respect of items on which taxation has been suspended that will be "taxed in the event of any use" is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve under Article 21 of Legislative Decree 213/98 on a tax-suspended basis are recognized as a reduction of that reserve. The potential taxation in respect of items that will be taxed "only in the event of distribution" is not recognized as the amount of available reserves that have already been taxes is sufficient to conclude that no transactions will be carried out that would involve their taxation.

Deferred taxation in respect of companies participating in the consolidated taxation mechanism is recognized in their financial statements on an accruals basis in view of the fact that the consolidated taxation mechanism is limited to settlement of current tax positions.

The potential taxation of components of the equity of the consolidated companies is not recognized where the circumstances that would give rise to their taxation are not considered likely to arise, taking due consideration of the lasting nature of the investment.

The value of deferred tax assets and liabilities is reviewed periodically to take account of any changes in legislation or in tax rates.

RECOGNITION OF INCOME COMPONENTS

statement with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period. Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes..

12 – Provisions for risks and charges

Other provisions for risks and charges

RECOGNITION AND CLASSIFICATION

Provisions for risks and charges are recognized in the income statement and reported under liabilities on the balance sheet in relation to a present legal or constructive obligation resulting from a past event for which performance of the obligation is likely to be onerous and the loss associated with the liability can be reliably estimated.

The amount recognized is the best estimate of the amount required to discharge the obligation or to transfer it to third parties as of the close of the period.

When the financial impact of the passage of time is significant and the dates of payment of the obligation can be estimated reliably, the provision is discounted at market rates as of the reporting date.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

The amounts recognized are reviewed at every balance sheet date and are adjusted to reflect the best estimate of the expense required to fulfil the obligations existing at the close of the period. The impact of the passage of time and that of changes in interest rates are reported in the income statement under net provisions for the period.

DERECOGNITION

Provisions are only used when the charges for which they were originally established are incurred. When the use of resources to fulfil the obligation is no longer deemed to be probable, the provision is reversed through profit or loss.

13 – Debt and securities issued

CLASSIFICATION

Debt and securities issued includes financial liabilities not held for trading in the short term, comprising all technical forms of interbank and customer funding and funding through certificates of deposit and outstanding bond issues, excluding any amounts repurchased.

RECOGNITION

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenues directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded. Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method, excluding short-term liabilities, which are recognized in the amount received in keeping with the general principles of materiality and significance. Refer to the section on loans and receivables for information on the criteria for determining amortized cost.

In addition to cases of extinguishment and expiration, financial liabilities are derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

14 – Financial liabilities held for trading

CLASSIFICATION

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of derivatives embedded in compound contracts. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

RECOGNITION

Debt and equity securities representing financial liabilities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed. The financial liabilities are initially recognized at fair value, which generally equals the amount received.

In cases in which the amount paid differs from the fair value, the financial liability is recognized at fair value, and the difference between the amount paid and the fair value is recognized through profit or loss.

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

MEASUREMENT

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the section on measuring financial assets held for trading for information on determining the fair value.

DERECOGNITION

Financial liabilities held for trading are eliminated upon being extinguished or upon maturity.

RECOGNITION OF INCOME COMPONENTS

Gains and losses from the measurement of financial liabilities held for trading are recognized through the income statement.

15 – Financial liabilities designated as at fair value

CLASSIFICATION

The item "Financial liabilities at fair value through profit or loss" includes financial liabilities that have been designated as at fair value through profit or loss as from their initial recognition as long as they meet the requirements for classification in that item, regardless of their technical form.

RECOGNITION

Financial liabilities at fair value through profit or loss are initially recognized at the settlement date for debt and equity instruments. Initial recognition of financial liabilities is at fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

MEASUREMENT

After initial recognition, financial liabilities reported under this item are measured at fair value through profit or loss. In order to determine fair value, the criteria previously noted in the section on financial liabilities held for trading are applied. For equity securities and associated derivatives, if valuation techniques cannot be used to reliably determine the fair value of the financial instruments, they shall be measured at cost and adjusted for any impairment.

DERECOGNITION

Financial liabilities at fair value are derecognized when the contractual rights to the cash flows expire or a disposal transfers all the risks and rewards connected with ownership to a third party.

RECOGNITION OF INCOME COMPONENTS

The result of the measurement is recognized in the income statement.

16 – Foreign currency transactions

RECOGNITION

Transactions in a foreign currency are initially recognized in the functional currency by translating the amount in the foreign currency into the functional currency at the exchange rate prevailing on the date of the transaction.

MEASUREMENT

At the reporting date, foreign currency items are measured as follows:

- monetary items are translated at the exchange rate prevailing at the reporting date;
- non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date;
- non-monetary items measured at fair value are translated using the exchange rate prevailing at the reporting date.

RECOGNITION OF INCOME COMPONENTS

Exchange differences relating to monetary and non-monetary items designated as at fair value through profit or loss are recognized in the income statement under item 80 ("Net gain (loss) on trading activities"). If the asset is classified as available for sale, exchange differences are allocated to the valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate, or the translation of previous financial statements, are recognized in the income statement in the period in which they emerge.

When gains or losses relating to a non-monetary item are recognized in equity, the exchange rate difference for the item is also recognized in equity. Likewise, when a gain or less is recognized in the income statement, the corresponding exchange rate difference is also recognized in the income statement.

17 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code. The change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

The portion of termination benefits accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the Bank:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans. It shall measure the obligation for benefits accrued by employees using actuarial techniques and shall calculate the total amount of actuarial gains and losses and the portion of these to be recognized in accordance with IAS 19 Revised.
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenues

Revenues are recognized when realized or, in the case of the sale of goods or products, when it is probable that future benefits will be received and these future benefits can be reliably determined, and in the case of services, when the services are performed.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized in the income statement only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenues from services are recognized in the period in which the service is rendered;
- revenues from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenues from the sale of non-financial assets are recognized upon completion of the sale, unless the Bank has retained most of the risks and rewards connected with the asset.

Accruals and deferrals

Accruals and deferrals in respect of expense and income accruing in the period on assets and liabilities are recognized in the financial statements as an adjustment of the assets and liabilities to which they refer.

Costs for leasehold improvements

The costs of renovating leased buildings lacking autonomous function or use are conventionally classified among other assets, as provided for in Bank of Italy Circular no. 262 - 4th update of December 15, 2015. The related depreciation, taken for a period not to exceed the duration of the lease, is reported under other operating expense.

DETERMINATION OF FAIR VALUE

Fair value is the amount for which an asset (or liability) could be exchanged between knowledgeable, willing parties that do not have to undertake transactions on unfavorable terms. In the definition of fair value, a key assumption is that an entity is fully operational (the assumption that an entity is a going concern) and does not have the intention or the need to liquidate, significantly reduce its operations or undertake transactions on unfavorable terms. In other words, fair value is not the amount an entity would receive or would pay in a forced transaction, an involuntary liquidation or a distress sale. Nevertheless, the fair value reflects the credit quality of the instrument as it incorporates counterparty risk.

FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined on the basis of prices on financial markets in the case of instruments quoted on active markets and through the use of internal valuation techniques for other financial instruments. A financial instrument is considered to be quoted on an active market if the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorized agency, regulatory authority or multilateral trading facility (MTF) and those prices represent actual and regularly occurring market transactions over a normal reference period.

The most appropriate fair value for an asset held or a liability to be issued is the current price offered by the purchaser (bid), while for an asset to be purchased or a liability held it is the current price requested by the seller (ask). In the absence of a quoted price on an active market or a regularly functioning market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently low, the fair value of financial instruments is mainly determined using valuation techniques that seek to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques consider:

- prices in recent market transactions in similar instruments, if available, corrected appropriately to reflect changes in market conditions and technical differences between the instrument being valued and the similar instrument (the 'comparable approach');
- valuation models commonly used by market participants that have been demonstrated to provide reliable estimates over time of prices obtained in current market conditions.

Financial instruments are assigned to one of three levels that reflect the characteristics and significance of the inputs used in determining fair value:

- **Level 1:** when the financial assets and liabilities have unadjusted quoted prices on an active market;
- **Level 2:** when quoted prices on an active market for similar assets and liabilities are available or prices are derived from valuation techniques whose inputs are directly or indirectly observable market parameters;
- **Level 3:** when prices are calculated using valuation techniques whose significant inputs are not observable on the market.

The choice between these methods is not discretionary and the valuation techniques used must maximize the use of observable market parameters, employing subjective parameters as little as possible.

In the absence of active markets (effective market quotes – Level 1), financial assets and liabilities are measured with valuation techniques using inputs that are directly or indirectly observable on the market other than the prices of financial instruments (comparable approach – Level 2) or, in the absence of such inputs or in the presence of inputs that are only partially based on parameters observable on the market, fair value is calculated on the basis of valuation techniques commonly used by market participants and, therefore, are more discretionary in nature (mark-to-model approach – Level 3).

The following are considered to be quoted on an active market (**Level 1**).

  - listed shares;
  - government securities quoted on a regulated market;
  - bonds with significant contributed prices;
  - listed funds or funds whose net asset value is calculated on a daily basis;
- derivatives contracts for which prices on an active market are available (listed derivatives).

The price used for financial instruments quoted on active markets is the current price offered for financial assets (bid) and the current price requested (ask) for financial liabilities, on the main trading market, at the close of the reporting period. In the case of financial instruments for which the bid-ask spread is not significant or for financial assets and liabilities whose characteristics give rise to offsetting positions in market risk, a mid-market price is used (once again as at the last day of the reporting period) rather than the bid or ask price.

In the absence of prices observable on active markets, the fair value of financial instruments is determined through two approaches:

- the comparable approach (Level 2), which assumes the presence of quoted market prices on inactive markets for identical or similar instruments in terms of risk-return, maturity and other trading conditions. In particular, when the current market prices of other highly comparable instruments (on the basis of the country or sector to which they belong, the rating, the maturity or the seniority of the securities) are available, the Level 2 value of the instrument corresponds to the quoted price of the similar instrument, adjusted if necessary for factors observable on the market;
- the model valuation approach (Level 2 or Level 3) is based on the use of valuation models that maximize the use of observable market variables..

The most common valuation techniques used are:

- discounted cash flow models
- option pricing models.

For derivatives, in view of their variety and complexity, a systematic reference framework has been developed that represents the common elements (calculation algorithms, valuation models, market data used, underlying assumptions of the model) on which the valuation of each category of derivative is based.

Derivatives on interest rates, exchange rates, equities, inflation and commodities not traded on regulated markets are over-the-counter instruments. In other words, they are negotiated bilaterally with market counterparties and their fair value is determined with specific pricing models that use inputs (such as yield curves, exchange rates and volatility) observed on the market.

For structured credit products and ABSs, if reliable prices are not available, valuation techniques using market-derived parameters are employed.

To determine the fair value of certain types of financial instrument, it is necessary to use valuation techniques that employ inputs that are not directly observable in the market and therefore require estimates and assumptions on the part of the person measuring the instrument (Level 3). More specifically, the mark-to-model approach is applied to all financial instruments not quoted on an active market when:

- even if observable inputs are available, it is necessary to make significant adjustments to such inputs that are based on unobservable inputs;
- the estimation is based on assumptions specific to the Bank concerning future cash flows and the adjustment for the discount rate risk.

In any event, the goal is to obtain a value for the instrument that is consistent with the assumptions that market participants would use in forming a price. Such assumptions also regard the risk associated with a given valuation technique and/or the inputs employed. Nevertheless, IFRS 13 requires the Bank to adopt reasonable assumptions without having to undertake exhaustive searches to find such information.

The valuation technique used for a financial instrument is adopted consistently over time and is modified only in response to material changes in market conditions or the condition of the issuer of the financial instrument.

For the purpose of reporting for financial instruments at fair value, the above hierarchy adopted in determining fair value is used consistently for the allocation of the portfolio to the fair value input levels (see section A.3 of Part A).

Additional information on the modeling used by the Bank in determining fair value is provided in section E of these notes.

The entire system of rules and responsibilities for the valuation of the Bank's financial instruments is set out in the Fair Value Policy, which specifies the main components of the entire methodological framework in terms of:

- definition of the roles and responsibilities of the company bodies and functions involved;;
- classification of the financial instruments;
- the rules for classification of financial instruments within the fair value hierarchy provided for under IFRS 7 and IFRS 13;
- the valuation techniques and methods used for financial instruments;
- processes for the management and control of the valuation of financial instruments;
- the hedging policy for financial instruments;
- reporting flows.

NON-FINANCIAL INSTRUMENTS

Investment property is primarily valued using external appraisals, considering transactions at current prices in an active market for similar properties, in the same location and condition and subject to similar conditions for rentals and other contracts.

DETERMINATION OF IMPAIRMENT

FINANCIAL ASSETS

At each reporting date, the Bank determines whether there is objective evidence that a financial asset or group of financial assets has incurred a "prolonged" reduction in value.

In particular, a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Impairment is assessed on an individual basis for financial assets that show specific evidence of having incurred an impairment loss and collectively for financial assets for which individual valuation is not required or for which individual valuation did not give rise to recognition of impairment. The collective valuation is based on the specification of uniform risk classes for the financial assets, taking account of the characteristics of the debtor/issuer, the economic sector involved, the geographical area, the presence of any guarantees and other relevant factors.

Accordingly, in the case of a prolonged reduction in value, the following procedures are adopted:

- for financial assets carried at amortized cost (loans & receivables and held-to-maturity investments), if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.
- when a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset has incurred a "significant or prolonged" loss of value, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

Any writebacks are recognized as follows:

- for financial assets classified as held to maturity investments and loans & receivables, in profit or loss;
- for financial assets classified as available for sale, in equity for equity instruments and in profit or loss for debt instruments.

The price of impaired financial instruments is determined as follows:

- for financial assets classified as held to maturity investments and loans & receivables, it is the present value of the expected cash flows (not considering future losses that have not yet occurred) discounted at the original internal rate of return of the instrument;
- for financial assets classified as available for sale, it is the fair value of the instrument.

Financial assets subject to impairment testing are debt securities and equity securities classified in the following IAS categories:

- Held to Maturity (HTM),
- Loans and Receivables (L&R),
- Available for Sale (AFS).

For the purposes of individual impairment testing, it is necessary to take account of the following factors:

- general market conditions;
- the correlation between the impairment loss on the individual financial instrument and a general decline in market indices (comparable analysis);

as well as the following indicators, which can be broken down into two categories:

- indicators drawn from internal, qualitative information concerning the company being valued, such as posting a loss or in any event diverging significantly from budget targets or objectives set out in long-term business plans announced to investors, the announcement or start of bankruptcy proceedings or reorganization plans, a reduction in the rating assigned by a specialized rating company of more than two steps;
- indicators drawn from external quantitative information (for equity securities) on the company, such as a "significant or prolonged" reduction in the fair value below its value at initial recognition.

DEBT SECURITIES

For debt securities, it is essential to assess the relevance of a deterioration in the conditions of the issuer on the basis of a careful and prompt evaluation of market information.

To this end, it is appropriate to consider specialized sources of information (such as, for example, investment advice from specialized financial institutions, rating reports, etc.) or from information providers (Bloomberg, Reuters, etc.).

In order to identify objective evidence of impairment giving rise to an impairment loss on the financial instrument, it is necessary to monitor developments. Indicators of possible impairment include, for example:

- default of the financial asset;
- significant financial difficulty of the issuer;
- default or delinquency in interest or principal payments;
- the possibility that borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the asset.

EQUITY SECURITIES

IAS 39 calls for impairment testing in the event of the joint presence of two circumstances:

- the occurrence of one or more adverse events after initial recognition of the financial asset;
- the fact that such event has an adverse impact on expected future cash flows.

In addition to these circumstances, objective evidence of impairment of equity securities classified as available for sale includes a "significant" or "prolonged" reduction in fair value below its cost, determined as follows: a decrease of more than 30% in the fair value of equity securities below their carrying amount or a continuous decrease for a period of over 18 months.

The amount of the impairment loss is determined with reference to the fair value of the financial asset.

For more on the methods used to determine fair value, please see the discussion in the associated section of the notes.

OTHER NON-FINANCIAL ASSETS

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each balance-sheet date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Since intangible assets with an indefinite life, represented by goodwill, do not generate autonomous cash flows, they undergo annual testing of their carrying amount for the cash generating unit (CGU) to which the values were allocated in the related business combinations. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and the recoverable value of the unit, represented by the greater of its fair value, net of costs of disposal, and its value in use.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. The value of guarantees at the time of initial recognition is equal to the commission received. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under "Fee and commission income", taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under "value adjustments". Writedowns for impairment of guarantees are reported under "Other liabilities".

Guarantees are off-balance-sheet transactions and are reported under "Other information" in Part B of the notes to the financial statements.

A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

IFRS 13 has introduced clear guidance on how to measure the fair value of financial instruments and non-financial assets and liabilities whenever the application of fair value is required or permitted by other international accounting standards.

More specifically, the standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the “exit price”)..

A.3.1 RECLASSIFIED FINANCIAL ASSETS: CARRYING AMOUNT, FAIR VALUE AND IMPACT ON COMPREHENSIVE INCOME

The table has not been completed because there were no such positions as of the balance sheet date.

A.3.2 RECLASSIFIED FINANCIAL ASSETS: IMPACT ON COMPREHENSIVE INCOME BEFORE TRANSFER

The table has not been completed because there were no such positions as of the balance sheet date as no transfers of financial assets were carried out.

A.3.3 TRANSFERS OF FINANCIAL ASSETS HELD FOR TRADING

The table has not been completed because there were no such positions as of the balance sheet date as no transfers of financial assets were carried out.

A.3.4 EFFECTIVE INTEREST RATE AND EXPECTED CASH FLOWS OF RECLASSIFIED ASSETS

The table has not been completed because there were no such positions as of the balance sheet date.

A.4 – FAIR VALUE DISCLOSURE

Qualitative disclosures

This section provides the disclosures on the fair value of financial instruments as requested under the new IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

For financial instruments measured at fair value, the Iccrea Banking Group has adopted a Group "Fair Value Policy" that assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

- **mark to market:** a valuation approach using inputs classified as Level 1 in the fair value hierarchy;
- **the comparable approach:** a valuation approach based on the use of the prices of instruments similar to the one undergoing valuation, which are classified as Level 2 in the fair value hierarchy;
- **mark to model:** a valuation approach based on the use of pricing models whose inputs are classified as Level 2 (in the case of the exclusive use of market observable inputs) or Level 3 (in the case of the use of at least one significant unobservable input) in the fair value hierarchy.

Mark to Market approach

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.

The concept of active market is a key concept in allocating a financial instrument to Level 1. An **active market** is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable Approach

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;
- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

Mark to Model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of **observable market inputs** (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may **inputs that are not observable on the market** be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The Bank uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

In particular, in the absence of quoted prices on active markets, financial instruments are measured as follows:

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- plain vanilla interest-rate derivatives are mainly valued using a discounted cash flow model. Interest-rate options and financial instruments with convexity adjustments are valued using a Log-normal Forward Model, while exotic options are values using the One Factor Trinomial Hull-White approach. The inputs used are yield curves and credit spreads, and volatility and correlation surfaces;
- plain vanilla inflation derivatives are valued using the CPI Swap valuation model, while structured options use the Inflation Market Model. The inputs used are inflation swap curves and premiums on plain-vanilla options;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are

spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;

- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.

The Fair Value Policy also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value.

Valuation adjustments are intended to:

- ensure that the fair value reflects the value of a transaction that could actually be carried out in a market;
- incorporate the future expected costs directly connected with the transaction;
- reduce the risk of distorting fair values, with consequent errors in profit or loss.

The factors impacting the need for an adjustment are:

- the complexity of the financial instrument;
- the credit standing of the counterparty;
- any collateral agreements;
- market liquidity.

The Bank has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

For transactions in derivatives, the Bank has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;
- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 Valuation processes and sensitivity

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Bank conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 Fair value hierarchy

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- **Level 1: unadjusted quoted prices on an active market.** Fair value is drawn directly from quoted prices observed on active markets;
- **Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices).** Fair value is determined using valuation techniques that provide for: a) the use of market

inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;

- **Level 3: inputs that are not observable on the market**. Fair value is determined using valuation techniques that use significant unobservable inputs.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet). The Group has specified the following approaches for measuring fair value in these cases:

- **cash and cash equivalents**: book value approximates fair value;
- **loans with a contractually specified maturity** (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- **intercompany loans** (classified under L2): the discounted cash flow model;
- **bad debts and substandard loans** valued on an individual basis: book value approximates fair value;
- **securities issued**:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- **financial liabilities** discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 Other information

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Bank's financial statements.

Quantitative disclosures

A.4.5 FAIR VALUE HIERARCHY

A.4.5.1 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL ONE

	30/06/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	15,982	454,708	1,291	91,041	328,899	238
2. Financial assets designated as at fair value	-	15,140	-	-	14,559	-
3. Financial assets available for sale	2,868,080	672,739	48,683	4,874,098	712,085	62,464
4. Hedging derivatives	-	7,373	-	-	15,326	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
TOTAL	**2,884,062**	**1,149,960**	**49,974**	**4,965,139**	**1,070,869**	**62,702**
1. Financial liabilities held for trading	2,095	509,164	-	98,455	324,160	-
2. Financial liabilities designated as at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	45,420	-	-	51,815	-
TOTAL	**2,095**	**554,584**	**-**	**98,455**	**375,975**	**-**

Key:

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

As required by paragraphs 72 through 90 of IFRS 13, in order to make a proper disclosure, the Bank sets forth in the table the financial instruments divided into the three levels of the hierarchy based upon the features and importance of the inputs used in the valuation process. More specifically, the levels are:

- **Level 1:** unadjusted quoted prices on an active market for the financial assets and liabilities being valued;
- **Level 2:** inputs other than the quoted prices under Level 1 that are observable on the market either directly or indirectly;
- **Level 3:** inputs that are not observable on the market.

Paragraph 93, letter c) of IFRS 13 requires that, in addition to showing the fair value hierarchy level, we must report information on significant transfers between Level 1 and Level 2 and give the reasons for these transfers. With regard to this, there were no significant transfers between the two levels during the year.

Furthermore, with regard to the quantitative impact on the fair value measurement of derivatives, the determination of the Credit Value Adjustment (an adjustment regarding the default risk of counterparties) had a negative impact of about €8 thousand, while the change attributable to the Debt Value Adjustment was about €26 thousand.

A.4.5.4 FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE A NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL.

	30/06/2017				31/12/2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	4,388,352	-	-	-	1,600,390	1,603,260	-	-
2. Due from banks	30,265,986	-	-	-	30,999,442	-	9,898,153	21,024,262
3. Loans to customers	3,152,114	-	-	-	4,181,848	-	1,538,373	2,712,610
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**37,806,452**	**-**	**-**	**-**	**36,781,680**	**1,603,260**	**11,436,526**	**23,736,872**
1. Due to banks	21,712,405	-	-	-	13,265,099	-	652,084	12,598,233
2. Due to customers	14,012,515	-	-	-	24,444,622	-	24,326	24,393,912
3. Securities issued	5,207,664	-	-	-	4,207,517	3,607,331	627,977	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**40,932,584**	**-**	**-**	**-**	**41,917,238**	**3,607,331**	**1,304,387**	**36,992,145**

Key:

CA= Carrying amount
L1= Level 1
L2= Level 2
L3= Level 3

A.5 – DISCLOSURE ON "DAY ONE PROFIT/LOSS"

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph 28. More specifically, the net negative effect amounted to about €302 thousand and was associated with the cash flow hedge of the BTP Italia government security.

Part B

Information on the balance sheet

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

This item comprises legal tender, including foreign currency notes and coin and demand deposits with the Bank of Italy.

CASH AND CASH EQUIVALENTS: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
a) Cash	88,522	98,424
b) Demand deposits with central banks	-	-
TOTAL	**88,522**	**98,424**

"Cash" includes foreign currency in the amount of €18,202 thousand.

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

This item reports all financial assets (debt securities, equity securities, derivatives, etc.) classified in the trading book.

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017			TOTAL AT 31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. On-balance-sheet assets						
1. Debt securities	**10,955**	**1,960**	**1,127**	**90,627**	**4**	**79**
1.1 structured securities	2,679	1,206	102	6,383	-	79
1.2 other debt securities	8,276	754	1,025	84,244	4	-
2. Equity securities	**3,429**	**-**	**-**	**170**	**78**	**159**
3. Units in collective investment undertakings	**-**	**98**	**163**	**100**	**-**	**-**
4. Loans	**1,397**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL A	**15,781**	**2,058**	**1,290**	**90,897**	**82**	**238**
B. Derivatives						
1. Financial derivatives	**201**	**452,650**	**-**	**144**	**328,817**	**-**
1.1 trading	201	452,650	-	144	328,817	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
TOTAL B	**201**	**452,650**	**-**	**144**	**328,817**	**-**
TOTAL (A+B)	**15,982**	**454,708**	**1,290**	**91,041**	**328,899**	**238**

SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE – ITEM 30

This item reports financial assets designated as at fair value through profit or loss under the fair value option provided for in IAS 39. It includes debt securities with embedded derivatives.

3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017			TOTAL AT 31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**-**	**15,140**	**-**	**-**	**14,559**	**-**
1.1 structured securities	-	15,140	-	-	14,559	-
1.2 other debt securities	-	-	-	-	-	-
2. Equity securities	**-**	**-**	**-**	**-**	**-**	**-**
3. Units in collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 structured	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL	**-**	**15,140**	**-**	**-**	**14,559**	**-**
COSTO	**-**	**15,140**	**-**	**-**	**14,978**	**-**

The amounts reported under “cost” indicate the purchase cost of financial assets held at the reporting date. the Bank exercised the fair value option for a credit linked note issued by the Bank in order to avoid unbundling the embedded derivative.

SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

This item reports all financial assets (debt securities, equity securities, derivatives, etc.) classified as "available for sale". Equity securities essentially regard equity investments that no longer qualify to be classified as such in the international accounting standards.

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017			TOTAL AT 31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**2,865,472**	**268,948**	**-**	**4,855,870**	**295,581**	**-**
1.1 structured securities	15,725	7,272	-	15,838	72	-
1.2 other debt securities	2,849,747	261,676	-	4,840,032	295,509	-
2. Equity securities	**1,809**	**-**	**43,295**	**17,437**	**-**	**37,807**
2.1 at fair value	1,809		10,026	17,437	-	18,140
2.2 carried at cost			33,269	-	-	19,667
3. Units in collective investment undertakings	**799**	**403,791**	**5,389**	**791**	**416,504**	**26,679**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**2,868,080**	**672,739**	**48,684**	**4,874,098**	**712,085**	**64,486**

The item mainly comprises government securities.

The item "Units in collective investment undertakings" reports units in the closed-end Securis Real Estate funds operated by Investire SGR, with a carrying amount of:

- Fondo Securis Real Estate €172,106 thousand
- Fondo Securis Real Estate II €149,458 thousand
- Fondo Securis Real Estate III €82,226 thousand

At June 30, 2017 total writedowns of €9,175 thousand had been recognized on those funds.

IMPAIRMENT TESTING OF FINANCIAL ASSETS AVAILABLE FOR SALE

As required under the IFRSs, financial assets available for sale undergo impairment testing to assess whether there is objective evidence that the carrying value of such assets is not fully recoverable. The detection of any impairment involves the verification of the presence of impairment indicators and the determination of any writedown.
Impairment indicators are essentially divided into two categories: those deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equity instruments - external quantitative indicators deriving from the market values of the company.
In the first category, the following indicators are considered significant: the generation of losses or, in any case, a significant gap with respect to the targets budgeted for or set forth in the multi-annual plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating issued by a specialist agency. As regards the second category, a substantial or prolonged reduction in fair value below the initial recognition value is considered significant; more specifically, a reduction in fair value of more than 30% is considered substantial, and a continuous reduction for a period of more than 18 months is considered prolonged. If one of these thresholds is exceeded, impairment of the security is recognized. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

At June 30, 2017, the test conducted as at December 31, 2016 was updated. The outcome of the testing essentially confirmed the values recognized in the separate financial statements of Iccrea Banca, with the exception of Fondo Atlante, for which a further impairment of €22.5 million was recognized.

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Financial assets with specific fair value hedges:	**335,810**	**944,099**
a) interest rate risk	335,810	944,099
b) price risk	-	-
c) exchange rate risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2. Financial assets with specific cash flow hedges:	**135,091**	**33,646**
a) interest rate risk	135,091	33,646
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**470,901**	**977,745**

The amounts regard Italian government securities BTP and a corporate security hedged with asset swaps against interest rate risk (fair value hedging) or to stabilize cash flows (cash flow hedging).

SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

This item comprises listed debt instruments and loans with fixed or determinable payments and a fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017				TOTAL AT 31/12/2016			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**4,388,352**	**4,409,011**	**-**	**-**	**1,600,390**	**1,603,260**	**-**	**-**
- structured	-	-	-	-	-	-	-	-
- other	4,388,352	4,409,011	-	-	1,600,390	1,603,260	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**4,388,352**	**4,409,011**	**-**	**-**	**1,600,390**	**1,603,260**	**-**	**-**

Key:

FV = fair value
CA = carrying amount

The item is entirely composed of government securities.

SECTION 6 - DUE FROM BANKS – ITEM 60

This item reports unlisted financial assets in respect of banks (current accounts, unrestricted and tied deposits, security deposits, debt securities, etc.) classified under "Loans and receivables" in accordance with IAS 39.

6.1 DUE FROM BANKS: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017				TOTAL AT 31/12/2016			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Claims on central banks	**1,084,557**				**152,719**			
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Reserve requirement	1,084,557	X	X	X	152,719	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**29,181,429**				**30,846,723**			
1. Financing	24,022,078				26,119,854			
1.1. Current accounts and demand deposits	590,740	X	X	X	568,552	X	X	X
1.2. Fixed-term deposits	78,653	X	X	X	98,880	X	X	X
1.3. Other financing:	23,352,685	X	X	X	25,452,422	X	X	X
- Repurchase agreements	179,040	X	X	X	1,939,470	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	23,173,645	X	X	X	23,512,952	X	X	X
2. Debt securities	5,159,351				4,726,869			
2.1 Structured securities	66,222	X	X	X	38,104	X	X	X
2.2 Other debt securities	5,093,129	X	X	X	4,688,765	X	X	X
TOTAL	**30,265,986**	**-**	**4,447,591**	**25,727,858**	**30,999,442**	**-**	**9,898,153**	**21,024,262**

Key:

FV = fair value
CA = carrying amount

Amounts due from banks are reported net of impairment adjustments.
The fair value is obtained using discounted cash flow techniques.
The sub-item "reserve requirement" includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

Loans secured by securities eligible for use in refinancing transactions (pool collateral) amounted to €21,517 million. The loans include €10,556 million in respect of the ECB's T-LTRO II and are reported under letter "B", "Other financing – Other". The securities pledged as collateral amount to €24,190 million net of the haircut applied to the various types of security.
During the period, financing involving the transfer of loans through the ABACO process also continued. At the end of the year, the loans received from Iccrea BancaImpresa to guarantee the collateral pool came to €3,562 million which comes to a net of around €1,382 million after the haircut is applied.

6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Loans with specific fair value hedges:	**535,549**	**894,345**
a) interest rate risk	535,549	894,345
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans with specific cash flow hedges:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**535,549**	**894,345**

The item consists of fixed-rate treasury deposits hedged with overnight indexed swaps and a Banca IMI step-up security hedged with an asset swap.

SECTION 7 - LOANS TO CUSTOMERS – ITEM 70

This item reports unlisted financial instruments, including debt securities, in respect of customers classified pursuant to IAS 39 as “loans and receivables”.

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017						TOTAL AT 31/12/2016					
	CARRYING AMOUNT			FAIR VALUE			CARRYING AMOUNT			FAIR VALUE		
	PERFORMING	IMPAIRED		L 1	L 2	L 3	PERFORMING	IMPAIRED		L 1	L 2	L 3
		PURCHASED	OTHER					PURCHASED	OTHER			
Loans	**3,123,540**	**-**	**20,389**				**4,155,401**	**-**	**19,955**			
1. Current accounts	166,059	-	205	X	X	X	184,754	-	199	X	X	X
2. Repurchase agreements	415,976	-		X	X	X	921,560	-	-	X	X	X
3. Medium/long-term loans	101,946	-	20,045	X	X	X	109,948	-	19,607	X	X	X
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	-	-		X	X	X	-	-	-	X	X	X
5. Finance leases	-	-		X	X	X	-	-	-	X	X	X
6. Factoring	-	--		X	X	X	-	-	-	X	X	X
7. Other	2,439,559		139	X	X	X	2,939,139	-	149	X	X	X
Debt securities	**8,184**	**-**	**-**				**6,492**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	8,184	-	-	X	X	X	6,492	-	-	X	X	X
TOTAL	**3,131,724**	**-**	**20,389**	**-**	**1,538,373**	**2,712,610**	**4,161,893**	**-**	**19,955**	**-**	**1,538,373**	**2,712,610**

Loans to customers are reported net of impairment losses. The fair value is obtained using discounted cash flow techniques.

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 30/06/217	TOTAL AT 31/12/2016
1. Loans with specific fair value hedges:	**22,289**	**23,760**
a) interest rate risk	22,289	23,760
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans with specific cash flow hedges:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**22,289**	**23,760**

Loans covered by fair value micro-hedges are reported at cost adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date. The amount reported regards a fixed-rate loan to BCC Solutions in the amount of €18,823 thousand (outstanding debt at June 30, 2017) hedged against interest rate risk (fair value hedge).

SECTION 8 - HEDGING DERIVATIVES – ITEM 80

This item reports hedging derivatives, which at the reporting date had a positive fair value.

8.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND LEVEL OF INPUT

	FV AT 30/06/2017			NV AT 30/06/2017	FV AT 31/12/2016			NV AT 31/12/2016
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**7,373**	**-**	**500,051**	**-**	**15,326**	**-**	**543,335**
1) Fair value	-	4,402	-	465,000	-	7,896	-	442,700
2) Cash flows	-	2,971	-	35,051	-	7,430	-	100,635
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**7,373**	**-**	**500,051**	**-**	**15,326**	**-**	**543,335**

Key

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

This account reports financial derivatives (mainly interest rate swaps and overnight indexed swaps) designated as fair value or cash flow hedges of financial assets and financial liabilities, as detailed in the following table.

8.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	FAIR VALUE						CASH FLOWS		INVESTMENTS IN FOREIGN OPERATIONS
	SPECIFIC					GENERIC	SPECIFIC	GENERIC	
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS				
1. Financial assets available for sale	125	-	-	-	-	X	-	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	363	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 30/06/2017	**125**	**-**	**-**	**-**	**-**	**363**	**-**	**-**	**-**
1. Financial liabilities	3,914	-	-	X	-	X	3,971	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 30/06/2017	**3,914**	**-**	**-**	**X**	**-**	**-**	**3,971**	**-**	-
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

The table report the positive fair values of hedging derivatives broken down by hedged assets or liabilities and type of hedge.

More specifically, “Financial assets available for sale” are represented by an asset swap hedging a Republic of Italy security and a corporate security.

“Loans " regards hedges of treasury deposits and a step-up security.

“Portfolio”: generic fair value hedges reports macro-hedges established using overnight indexed swap (OISs).

The item “Financial liabilities” specifically hedging interest rate risk (fair value hedging), reports the positive fair values of interest rate swaps (IRS) and interest rate options (IRO) hedging fixed-rate and floating-rate bonds issued by the Bank.

The item “Financial liabilities” specifically hedging cash flows (cash flow hedging) reports cross currency interest rate swaps (CCIRS) hedging bonds issued by the Bank in U.S. dollars.

SECTION 9 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 90

This item reports the positive or negative balance of changes in the value of assets macro-hedged against interest rate risk, in application of IAS 39.

9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	TOTAL AT 30/06/17	TOTAL AT 31/12/2016	
1. Positive adjustments	**-**		**-**
1.1 of specific portfolios:	-		-
a) loans	-		-
b) financial assets available for sale	-		-
1.2 comprehensive	-		-
2. Negative adjustments	**147**	**-**	**348**
2.1 of specific portfolios:	147	-	348
a) loans	147		348
b) financial assets available for sale	-		-
2.2 comprehensive	-		-
TOTAL	**147**	**-**	**348**

9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK

	TOTAL AT 30/06/17	TOTAL AT 31/12/2016
1. Loans	1,167,756	3,028,456
2. Assets available for sale	-	-
3. Portfolio	-	-
TOTAL	**1,167,756**	**3,028,456**

The macro-hedging was conducted for portfolios of collateralized loans, managed by the treasury unit, using overnight indexed swaps.

SECTION 10 - EQUITY INVESTMENTS – ITEM 100

10.1 EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: INFORMATION ON INVESTMENTS

	REGISTERED OFFICE	OPERATIONAL HEADQUARTERS	% HOLDING	% OF VOTES
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	99.33	99.33
BCC Beni Immobili s.r.l.	Milan	Rome	100.00	100.00
BCC Retail scarl	Milan	Milan	39.30	39.30
Ventis s.r.l.	Milan	Milan	95.00	95.00
Bcc Sistemi Informatici	Milan	Milan	98.53	98.53
BCC Risparmio e Previdenza	Milan	Milan	75.00	75.00
BCC Gestione Crediti	Rome	Rome	55.00	55.00
BCC Solutions	Rome	Rome	100.00	100.00
BCC Credito Consumo	Rome	Udine	96.00	96.00
Banca Sviluppo	Rome	Rome	68.07	68.07
QF Securfondo	Rome	Milan	54.40	54.40
C. Companies subject to significant influence				
M-Facility S.P.A.	Rome	Rome	37.50	37.50
Hi-Mtf S.p.A.	Milan	Milan	25.00	25.00
BCC Vita S.p.A.	Milan	Milan	49.00	49.00
BCC Assicurazioni	Milan	Milan	49.00	49.00
Accademia BCC S.c.p.A.	Rome	Rome	26.05	26.05

Equity investments are in companies instrumental to achieving the corporate purpose. They are represented by unlisted securities with the exception of the units in the closed-end real-estate fund “Securfondo”.

10.2 EQUITY INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE: ACCOUNTING DATA

	CARRYING AMOUNT	FAIR VALUE	DIVIDENDS RECEIVED
A. Subsidiaries			
Iccrea BancaImpresa S.p.A.	740,419	-	
BCC Beni Immobili s.r.l.	18,313	-	
BCC Retail scarl	393	-	
Ventis s.r.l.	1,778	-	
Bcc Sistemi Informatici	45,025	-	
BCC Risparmio e Previdenza	22,474	-	5,992
BCC Gestione Crediti	1,411	-	
BCC Solutions	75,700	-	4,000
BCC Credito Consumo	50,241	-	9,005
Banca Sviluppo	101,959	-	
QF Securfondo	16,438	-	
C. Companies subject to significant influence			
M-Facility S.P.A.	372	-	
Hi-Mtf S.p.A.	1,250	-	
BCC Vita S.p.A.	101,430	-	4,192
BCC Assicurazioni	8,080	-	
Accademia BCC S.c.p.A.	208	-	
TOTAL	**1,185,491**	**-**	**23,189**

IMPAIRMENT TESTS OF EQUITY INVESTMENTS

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.
Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income. If evidence of impairment is found, the amount of any impairment loss is determined on the basis of the difference between the carrying amount and the recoverable value. The latter is represented by the greater of the fair value net of any selling costs, and the value in use.

More specifically, the investments held by Iccrea Banca in which there was a difference between the carrying amount recognized in the 2017 interim financial statements and the fraction of equity recognized in the financial statements of the investee underwent an impairment testing.

The recoverability of the carrying amount of was assessed using a number of approaches: shareholder' equity, market multiples, dividend discount model, equity with valuation of funding and appraisal value.

The test essentially confirmed the values recognized in the separate financial statements of Iccrea Banca

For more information on impairment testing, see Part A – Accounting policies of these notes to the financial statements.

SECTION 11 - PROPERTY AND EQUIPMENT – ITEM 110

This item reports tangible assets (property, movables, plant, machinery, etc.) used in operations governed by IAS 16 and investment property governed by IAS 40.

11.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Owned assets	**12,985**	**12,567**
a) land	-	-
b) buildings	-	-
c) movables	199	379
d) electronic plant	12,238	11,641
e) other	548	547
2 Assets acquired under financial leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) movables	-	-
d) electronic plant	-	-
e) other	-	-
TOTAL	**12,985**	**12,567**

SECTION 12 - INTANGIBLE ASSETS – ITEM 120

This item reports intangible assets governed by IAS 38, all of which are measured at cost.

12.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	TOTAL AT 30/06/2017		TOTAL AT 31/12/2016	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	X	**-**	X	**-**
A.2 Other intangible assets	**6,497**	**-**	**5,682**	**-**
A.2.1 Assets carried at cost:	6,497	-	5,682	-
a) internally generated intangible assets	-	-	-	-
b) other assets	6,497	-	5,682	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
TOTAL	**6,497**	**-**	**5,682**	**-**

Under the provisions of IAS 38, all software has been classified under intangible assets with a finite life. The assets are amortized over three years on a straight-line basis.

SECTION 13 - TAX ASSETS AND LIABILITIES – ITEM 130 OF ASSETS AND ITEM 80 OF LIABILITIES

This item reports tax assets (current and deferred) and tax liabilities (current and deferred), which are recognized under item 130 of assets and 80 of liabilities, respectively.

13.1 DEFERRED TAX ASSETS: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
A. Gross deferred tax assets	**37,984**	**36,343**
A1. Loans (including securitizations)	3,490	2,969
A2. Other financial instruments	2,851	3,272
A3. Goodwill	-	-
A4. Deferred charges	-	-
A5 Property and equipment	-	-
A6. Provisions for risks and charges	3,956	3,894
A7. Entertainment expenses	-	-
A8. Personnel costs	829	926
A9. Tax losses	22,866	18,639
A10. Unused tax credits to deduct	3,992	6,643
A11. Other	-	-
B. Offsetting with deferred tax liabilities*	**4,264**	**5,912**
C. Net deferred tax assets (A-B)	**33,721**	**30,431**

13.2 DEFERRED TAX LIABILITIES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
A. Gross deferred tax liabilities	**4,554**	**7,878**
A1. Capital gains tax in instalments	1,225	2,369
A2. Goodwill	-	-
A3. Property and equipment	-	-
A4. Financial instruments	3,329	5,509
A5. Personnel costs	-	-
A6. Other	-	-
B. Offsetting with deferred tax assets	**4,264**	**5,912**
C. Net deferred tax liabilities (A-B)	**290**	**1,966**

DEFERRED TAXES NOT RECOGNIZED

The amount and changes in taxable timing differences (and related components) that do not meet requirements for recognition as deferred tax liabilities as it is unlikely that they will have to be paid include:

- deferred tax liabilities in respect of the revaluation reserve established pursuant to Law 342 of 22/11/2000 net of the special capital gains tax already paid (€11,227 thousand), Law 413/1991 and Law 196/1983. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €9.7 million.

13.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Opening balance	**32,719**	**6,573**
2. Increases	**6,528**	**31,665**
2.1 Deferred tax assets recognized during the period	6,528	31,665
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	6,528	31,665
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4,382**	**5,519**
3.1 Deferred tax assets derecognized during the period	4,382	5,519
a) reversals	4,382	5,519
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credits pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**34,865**	**32,719**

13.3.1 CHANGES IN DEFERRED TAX ASSETS UNDER LAW 214/2011 (RECOGNIZED IN INCOME STATEMENT)

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Opening balance	**2,969**	**3,125**
2. Increases	**-**	**-**
3. Decreases	**125**	**156**
3.1 Reversals	125	156
3.2 Transformation into tax credits	-	-
a) from loss for the year	-	-
b) from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,844**	**2,969**

13.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Opening balance	**2,289**	**3,432**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognized during the period	-	-
a) in respect of previous period	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,144**	**1,143**
3.1 Deferred tax liabilities derecognized during the period	1,144	1,143
a) reversals	1,144	1,143
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**1,145**	**2,289**

13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Opening balance	**3,624**	**2,613**
2. Increases	**-**	**1,012**
2.1 Deferred tax assets recognized during the period	-	1,012
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	-	1,012
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**504**	**1**
3.1 Deferred tax assets derecognized during the period	504	1
a) reversals	504	1
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**3,120**	**3,624**

13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Opening balance	**5,590**	**20,601**
2. Increases	**-**	**860**
2.1 Deferred tax liabilities recognized during the period	-	860
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	-	860
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2,180**	**15,871**
3.1 Deferred tax liabilities derecognized during the period	2,180	15,871
a) reversals	2,180	15,871
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**3,410**	**5,590**

13.7 OTHER INFORMATION

With regard to Iccrea Banca's tax position, please note that:

- for the 2012 tax year, following a general audit conducted by the Finance Police from May 8 to July 27, 2017, the assessment raised an issue concerning the deductibility of a cost in that year. More specifically, an amount of €48,195 expensed in 2012 was later included in taxable income in 2015 as prior-year income. In view of the fact that the associated tax liability has already been paid, the only penalty to which the Bank is exposed would be an administrative fine of up to about €17,000.

- for the financial years 2013, 2014 and 2015 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- In November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. After adverse rulings in the first two levels of adjudication, the Bank lodged an appeal with the Court of Cassation;
- on May 8, 2017, the Finance Police began an audit concerning direct taxes for 2012, which was completed on July 27, 2017. Only one immaterial violation was found.

SECTION 14 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 140 OF ASSETS AND ITEM 90 OF LIABILITIES

This item reports "individual assets" and individual disposal groups held for sale referred to by IFRS 5.

14.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE OF ASSET

The section has not been completed because there were no such positions as of the balance sheet date.

14.2 OTHER INFORMATION

There are no such positions as of the balance sheet date.

14.3 DISCLOSURES ON EQUITY INVESTMENTS IN COMPANIES UNDER SIGNIFICANT INFLUENCE NOT ACCOUNTED FOR AT EQUITY

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 15 - OTHER ASSETS – ITEM 150

This item reports assets that cannot be classified under other balance sheet accounts.

15.1 OTHER ASSETS: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
Items being processed	50,408	66,845
Failed		
Receivables for future premiums	18,054	18,874
Commissions	28,492	25,849
Receivables due from Parent Company in respect of consolidated tax mechanism	-	-
Definitive items not allocable to other accounts	16,993	
Tax receivables due from tax authorities and other entities	56,449	33,345
Items being processed	44,197	42,054
TOTAL	**214,593**	**186,967**

The item "Definitive items not allocable to other accounts" comprises transactions that were settled in the first few days the second half of 2017.

LIABILITIES

SECTION 1 - DUE TO BANKS – ITEM 10

This item reports amounts due to banks, whatever their technical form other than those reported under items 30, 40 and 500.

1.1 DUE TO BANKS: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Due to central banks	**14,400,000**	**5,500,000**
2. Due to banks	**7,312,406**	**7,765,099**
2.1 Current accounts and demand deposits	4,453,976	4,018,089
2.2 Fixed-term deposits	2,730,811	3,310,672
2.3 Loans	125,945	433,206
2.3.1 Repurchase agreements	115,793	421,991
2.3.2 Other	10,152	11,215
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	1,674	3,133
TOTAL	**21,712,406**	**13,265,099**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**-**	**652,084**
FAIR VALUE LEVEL 3	**-**	**12,598,233**
TOTAL FAIR VALUE	**-**	**13,250,317**

The item "due to central banks" represents financing from the ECB. In June 2016, the Bank repaid the entire amount obtained under T-LTRO I, with the concomitant participation in the T-LTRO II program. Those loans fall due in June 2020.

Securities pledged as collateral for T-LTRO II financing amount to €15,164 million.

The sub-item "fixed-term deposits" also includes deposits received from mutual banks in the amount of about €941,379 thousand used to meet reserve requirements indirectly.

The fair value is obtained using discounted cash flow techniques.

SECTION 2 - DUE TO CUSTOMERS – ITEM 20

This item reports amounts due to customers whatever their technical form (deposits, current accounts, loans) other than those reported under items 30, 40 and 50.

2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Current accounts and demand deposits	265,014	276,011
2. Fixed-term deposits	-	2,223
3. Loans	12,503,564	23,535,189
3.1 Repurchase agreements	12,503,564	23,535,189
3.2 Other	-	-
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other payables	1,243,937	631,199
TOTAL	**14,012,515**	**24,444,622**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**-**	**24,326**
FAIR VALUE LEVEL 3	**-**	**24,393,912**
TOTAL FAIR VALUE	**-**	**24,418,238**

The sub-item "Repurchase agreements" is composed entirely of transactions with the Clearing and Guarantee Fund.

The sub-item "Other payables" essentially regards bankers' drafts issued and not yet presented for extinguishment.

The fair value is obtained using discounted cash flow techniques.

SECTION 3 - SECURITIES ISSUED – ITEM 30

This item reports securities issued measured at amortized cost. The amount is reported net of repurchases.

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017				TOTAL AT 31/12/2016			
	CARRYING AMOUNT	FAIR VALUE			CARRYING AMOUNT	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Securities								
1. Bonds	5,207,664	4,411,353	831,869	-	4,207,517	3,607,331	627,977	-
1.1 structured	368,544	374,595	5,112	-	404,319	413,282	3,609	-
1.2 other	4,839,120	4,036,758	826,757	-	3,803,198	3,194,049	624,368	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**5,207,664**	**4,411,353**	**831,869**	**-**	**4,207,517**	**3,607,331**	**627,977**	**-**

The item comprises bonds issued by the Bank and hedged against interest rate risk using derivatives, the amount of which is adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date (fair value hedge) as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

3.2 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SUBORDINATED SECURITIES

At June 30, 2017 the following subordinated securities were in issue:

1. Issue date March 6, 2014, Maturity date March 6, 2021, nominal value of €200 million, residual value at June 30 of €160 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments.

2. Issue date June 18, 2015, Maturity date June 18, 2025, nominal value of €106.600 million, annual interest rate 6-month Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

3. Issue date June 29, 2015, Maturity date June 29, 2025, nominal value of €11.737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

4. Issue date July 30, 2015, Maturity date July 30, 2025, nominal value of €16 million, interest rate 6-month Euribor + 350 basis points, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

3.3 SECURITIES ISSUED: SECURITIES HEDGED SPECIFICALLY

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Securities covered by specific fair value hedges	**430,497**	**470,399**
a) interest rate risk	430,497	470,399
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Liabilities covered by specific cash flow hedges:	**72,693**	**80,166**
a) interest rate risk	-	-
b) exchange rate risk	72,693	80,166
c) other	-	-
TOTAL	**503,190**	**550,565**

The indexed amount in 1.a) regards 4 bonds issued by the Bank and hedged for interest rate risk using interest rate derivatives.

The indexed amount in 2.b) regards 4 bonds in US dollars issued by the Bank.

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

This item reports financial derivatives held for trading.

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	TOTAL AT 30/06/2017					TOTAL AT 31/12/2016				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	**587**	**645**	**-**	**-**	**645**	**571**	**606**	**-**	**-**	**606**
2. Due to customers	**1,345**	**1,409**	**9**	**-**	**1,418**	**91,863**	**96,983**	**16**	**-**	**96,999**
3. Debt securities	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
3.1 Bonds	-	-	-	-		-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL A	**1,932**	**2,054**	**9**	**-**	**2,063**	**92,434**	**97,589**	**16**	**-**	**97,605**
B. Derivatives										
1. Financial derivatives		**41**	**509,155**	**-**			**866**	**324,145**	**-**	
1.1 Trading	X	41	509,155		X	X	866	324,145		X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		**-**	**-**	**-**			**-**	**-**	**-**	
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL B	**X**	**41**	**509,155**	**-**	**X**	**X**	**866**	**324,145**	**-**	**X**
TOTAL (A+B)	**X**	**2,095**	**509,164**	**-**	**X**	**X**	**98,455**	**324,161**	**-**	**X**

Key

FV = Fair value
FV*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date
NV = nominal or notional value
L1=Level 1
L2=Level 2
L3=Level 3

Part A of the table reports short positions in respect of debt securities (reported under amounts due to banks or customers depending on the issuer) which were closed in the early days of January.

SECTION 5 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE – ITEM 50

The section has not been completed because there were no such positions as of the balance sheet date.

SECTION 6 - HEDGING DERIVATIVES – ITEM 60

This item reports financial derivatives used for hedging that had a negative fair value as at the reporting date.

6.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND LEVEL OF INPUTS

	FAIR VALUE AT 30/06/2017			NV AT 30/06/2017	FAIR VALUE AT 31/12/2016			NV AT 31/12/2016
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**45,420**	**-**	**912,437**	**-**	**51,815**	**-**	**2,128,842**
1) Fair value	-	39,659	-	735,605	-	47,571	-	2,096,242
2) Cash flows	-	5,761	-	176,832	-	4,244	-	32,600
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**45,420**	**-**	**912,437**	**-**	**51,815**	**-**	**2,128,842**

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

These are financial derivatives designated as hedges of the risk of changes in the fair value or cash flows of financial instruments classified as “financial assets available for sale”, “loans” a “portfolio” of deposits and “financial liabilities”, as reported in the following table.

6.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE

	FAIR VALUE						CASH FLOWS		INVESTEMENTS IN FOREIGN OPERATIONS
	SPECIFICA								
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS	GENERIC	SPECIFIC	GENERIC	
1. Financial assets available for sale	28,101	-	-	-	-	X	4,005	X	X
2. Loans	3,564	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 31/12/2016	**31,665**	**-**	**-**	**-**	**-**	**-**	**4,005**	**-**	**-**
1. Financial liabilities	7,993	-	-	X	-	X	1,757	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 31/12/2016	**7,993**	**-**	**-**	**X**	**-**	**-**	**1,757**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	X	-	-

The amounts reported in respect of “financial assets available for sale” regard fair value hedges that the Bank has established using asset swap derivatives to sterilize the interest rate risk connected with listed debt securities, in this case inflation-linked and fixed-rate BTPs. This approach makes it possible to synthetically replicate a floating-rate instrument.

The amount reported for specific cash flow hedges of “financial assets available for sale” regards the negative fair value of an asset swap on a BTP linked to European inflation.

“Loans” hedged against interest rate risk refer to 1 fixed-rate loan to BCC Solutions hedged with interest rate swaps and 1 deposit hedged using overnight indexed swaps.

The amount reported under point 4 regards macro-hedges with overnight indexed swaps of portfolios of deposits managed by the treasury unit.

The item “financial liabilities” reports the negative fair value of interest rate swaps and interest rate options hedging two bonds issued by the Bank.

SECTION 7 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES – ITEM 70

There were no such positions as of the balance sheet date.

SECTION 8 - TAX LIABILITIES – ITEM 80

See section 13 under assets.

SECTION 9 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 90

See section 14 under assets.

SECTION 10 - OTHER LIABILITIES – ITEM 100

This item reports liabilities that cannot be classified under other balance sheet accounts.

10.1 OTHER LIABILITIES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
Amounts due to social security institutions and State	15,058	17,690
Amounts available to customers	8,753	15,477
Items being processed	134,458	90,753
Securities to be settled	-	51
Definitive items not allocable to other accounts	132,028	26,605
Liabilities for future premiums	8,538	9,541
Payables due to Parent Company in respect of consolidated tax mechanism	36,848	-
Subsidiaries – Group VAT	1,810	
Tax payables due to tax authorities	19,602	56,112
Payables due to employees	6,238	3,213
Invoices to be paid and to be received	-	56,041
Failed purchase transactions	10,089	95,877
Illiquid portfolio items	-	18
TOTAL	**373,422**	**371,378**

The sub-item “definitive items not allocable to other accounts” include transactions settled in July 2017.

SECTION 11 - EMPLOYEE TERMINATION BENEFITS – ITEM 110

This item reports employee termination benefits, estimating the amount due to each employee in relation to the specific time the employment relationship ceases. The amount is calculated on an actuarial basis, considering the future time at which the actual financial outlay will be incurred.

11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
A. Opening balance	**12,263**	**12,769**
B. Increases	**207**	**1,311**
B.1 Provisions for the period	80	835
B.2 Other increases	127	477
C. Decreases	**962**	**1,817**
C.1 Benefit payments	660	1,817
C.2 Other decreases	302	-
D. Closing balance	**11,508**	**12,263**
Total	**11,508**	**12,263**

11.2 OTHER INFORMATION

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract. The liability calculated pursuant to Art. 2120 of the Civil Code amounted to €11,086 thousand.

The actuarial assumptions used by an independent actuary to calculate the liability as at the reporting date are as follows:

- **demographic parameters**: drawn from ISTAT's 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 1.70%;
- **financial parameters**: the calculations assumed an interest rate of 1.30%;
- **economic parameters**: the rate of inflation was assumed to be 1.50%, while the rate of increase in salaries was 2.38% for all categories of employee and used only for seniority purposes.

The independent actuary determined the discount rate using as a reference basket the Iboxx Obbligazioni Corporate AA index for the euro area, with an average duration comparable to the group being assessed.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES – ITEM 120

This item reports existing liabilities for which a future outflow of resources is considered likely by the Bank, in accordance with IAS 37.

12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1 Company pension plans		-
2. Other provisions for risks and charges	**11,842**	**12,446**
2.1 legal disputes	8,069	7,696
2.2 personnel expenses	771	783
2.3 other	3,002	3,967
TOTAL	**11,842**	**12,446**

The sub-item "Legal disputes" includes €5,461 thousand for revocatory actions in bankruptcy and €2,235 thousand for litigation and disputes. The sub-item "personnel expenses" includes seniority bonuses for employees.

The item "Other" mainly reports a penalty requested by ICBPI of €1,507 thousand for the early termination of the contract for Custodian Bank of the National Pension Fund for Mutual Bank Employees on the basis of the commitments undertaken by the Bank in respect of ICBPI at the time of the disposal of the Custodian Bank operations. the remainder is represented by other risks associated with the electronic money segment and other disputes.

12.4 PROVISIONS - OTHER

	OPENING BALANCE	USES	PROVISIONS	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
Revocatory actions	5,461	-	-	5,461	5,461
Litigation and disputes	6,202	965	373	5,610	6,202
Loyalty bonus	783	62	50	771	783
CLOSING BALANCE	**12,446**	**1,027**	**423**	**11,842**	**12,446**

SECTION 13 - REDEEMABLE SHARES – ITEM 140

There were no such shares as of the reporting date..

SECTION 14 - SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200

14.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each, for a total of €1,151,045,403.55 held primarily by mutual banks and other entities in the mutual bank industry.

At June 30, 2017, Iccrea Bank held a residual 569,464 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €30,067,699.20.

14.2 SHARE CAPITAL– NUMBER OF SHARES: CHANGE FOR THE PERIOD

	ORDINARY	OTHER
A. Shares at the start of the year	**22,285,487**	**-**
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	569,464	-
A.2 Shares in circulation: opening balance	**21,716,023**	**-**
B. Increases	**-**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**21,716,023**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	21,716,023	-
- fully paid	21,716,023	-
- partially paid	-	-

14.3 SHARE CAPITAL: OTHER INFORMATION

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each for a total of €1,151,045,403.55 held primarily by mutual banks and other entities in the mutual bank industry.

Following the merger of Iccrea Holding into Iccrea Banca and as a result of the option for shareholders to withdraw from the company, at June 30, 2017 Iccrea Bank held a residual 569,464 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €30,067,699.20.

14.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €401,194 thousand and include: the legal reserve (€50,309 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€302,299 thousand), a reserve (€1,843 thousand) created following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of BCC Multimedia, a positive reserve (€162 thousand) related to the transfer of properties to BCC Beni Immobili and a positive reserve (€234 thousand) related to the transfer of the “Branch Services” business unit to Banca Sviluppo. Pursuant to the provisions of the articles of association, at least one-tenth of net profit for the period shall be allocated to the legal reserve until that reserve is equal to one-fifth of share capital. The remaining nine-tenths are available for allocation by the Shareholders’ Meeting, which decides on the basis of a proposal of the Board of Directors.

DISTRIBUTABILITY, AVAILABILITY AND FORMATION OF EQUITY RESERVES

Pursuant to Art. 2427, nos. 4 and 7 bis of the Civil Code, the following table reports the composition of the Bank's shareholders' equity, indicating the origin, availability and possible distribution of the various components.

	AMOUNT	POSSIBLE USES (*)	AVAILABLE AMOUNT	SUMMARY OF USES IN LAST THREE YEARS	
				FOR LOSS COVERAGE	OTHER
Share capital	1,151,045				
Share premium account	4,747				
Treasury shares	(30,068)				
Reserves:					
a) legal reserve	50,309	B	50,309		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	302,299	A – B – C	271,299		
d) other reserves	2,002	A – B – C	2,002		
e) FTA reserve	46,379	A – B – C	46,379		
Valuation reserves: a) financial assets available for sale	13,027		–		
b) cash flow hedges	(1,971)		–		
c) actuarial gains (losses) on defined-benefit plans	(1,751)				
Valuation reserves: (Law 342 of 22/11/2000)	52,062	A – B – C (**)	52,062		
Net profit for the period	1,078				
TOTAL	1,589,364				

(*) A = CAPITAL INCREASE; B = LOSS COVERAGE; C = DISTRIBUTION TO SHAREHOLDERS (**) IF THE RESERVE IS USED TO COVER LOSSES, PROFITS MAY NOT BE DISTRIBUTED UNTIL THE RESERVE HAS BEEN RESTORED OR REDUCED TO A CORRESPONDING EXTENT. ANY SUCH REDUCTION MUST BE APPROVED BY THE EXTRAORDINARY SHAREHOLDERS' MEETING WITHOUT THE NEED TO COMPLY WITH THE PROVISIONS OF PARAGRAPHS 2 AND 3 OF ARTICLE 2445 OF THE CIVIL CODE.. IF THE RESERVE IS NOT ALLOCATED TO SHARE CAPITAL, IT MAY ONLY BE REDUCED IN COMPLIANCE WITH THE PROVISIONS OF PARAGRAPHS 2 AND 3 OF ARTICLE 2445 OF THE CIVIL CODE. IF IT IS DISTRIBUTED TO SHAREHOLDERS, IT SHALL FORM PART OF THE TAXABLE INCOME OF THE COMPANY AND THE SHAREHOLDERS.

14.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

There were no such positions as of the balance sheet date.

14.6 OTHER INFORMATION

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1) Financial guarantees issued	**133,788**	**145,582**
a) Banks	122,283	133,331
b) Customers	11,505	12,251
2) Commercial guarantees issued	**60,815**	**49,628**
a) Banks	60,815	49,628
b) Customers	-	-
3) Irrevocable commitments to disburse funds	**1,124,802**	**1,764,801**
a) Banks	731,238	542,937
i) certain use	477,440	265,132
ii) uncertain use	253,798	277,805
b) Customers	393,564	1,221,864
i) certain use	393,564	1,221,864
ii) uncertain use	-	-
4) Commitments underlying credit derivatives: sales of protection	**15,000**	**15,000**
5) Assets pledged as collateral for third-party debts	**18,679**	**-**
6) Other commitments	**650**	**300**
TOTAL	**1,353,734**	**1,975,311**

The amount of “guarantees issued” by the Bank is reported at nominal value net of uses and any impairment losses. “Irrevocable commitments to disburse funds” are reported on the basis of the commitment net of amount already disbursed and any impairment losses.

“Irrevocable commitments to disburse funds” where use by the applicant is certain and specified include purchases (spot and forward) of securities not yet settled as well as deposits and loans to be disbursed at a future date.

The amount under “commitments underlying credit derivatives: sales of protection” regards the notional amount net of amounts disbursed and any value adjustments.

Part C

Information on the income statement

SECTION 1 - INTEREST – ITEMS 10 AND 20

This item reports interest income and expense, similar income and expense in respect, respectively, of cash and cash equivalents, financial assets held for trading, financial assets at fair value, financial assets available for sale, financial assets held to maturity and loans (items 10, 20, 30, 40, 50, 60 and 70 of assets) and debt, securities issued, financial liabilities held for trading and financial liabilities at fair value (items 10, 20, 30, 40, and 50 of liabilities) as well as any other interest accrued during the period.

Interest income and expense also include positive or negative differences and margins accrued as at the reporting date and expiring or closed as at the reporting date in respect of hedge derivatives and derivatives associated with the fair value option.

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

		DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
1	Financial assets held for trading	535	-	-	**535**	**3,155**
2	Financial assets available for sale	4,996	-	-	**4,996**	**22,467**
3	Financial assets held to maturity	8,467	-	-	**8,467**	**9,152**
4	Due from banks	28,381	5,893	-	**34,274**	**45,870**
5	Loans to customers	36	12,870	-	**12,906**	**42,099**
6	Financial assets at fair value	120	-	-	**120**	**1,308**
7	Hedging derivatives	X	X	-	**-**	**-**
8	Other assets	X	X	38,299	**38,299**	**1,535**
	TOTAL	**42,535**	**18,763**	**38,299**	**99,597**	**125,587**

1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	DEBTS	SECURITIES	OTHER TRANSACTIONS	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
Due to central banks	-	X	-	**-**	**(3,654)**
Due to banks	(7,239)	X	-	**(7,239)**	**(10,007)**
Due to customers	(5)	X	-	**(5)**	**(955)**
Securities issued	X	(49,789)	-	**(49,789)**	**(55,436)**
Financial liabilities held for trading	(2,023)	-	-	**(2,023)**	**(1,668)**
Financial liabilities carried at fair value	-	-	-	**-**	**(5,630)**
Other liabilities and provisions	X	X	(24,324)	**(24,324)**	**(16,832)**
Hedging derivatives	X	X	(2,539)	**(2,539)**	**(815)**
TOTAL	**(9,266)**	**(49,789)**	**(26,863)**	**(85,918)**	**(94,996)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

These items report income and expense in respect of services provided and received by the Bank.

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
a) guarantees issued	54	**102**
b) credit derivatives	**-**	**-**
c) management, intermediation and advisory services:	**9,089**	**10,871**
1. trading in financial instruments	3,338	4,268
2. foreign exchange	86	91
3. asset management		-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	3,911	4,067
5. depository services	-	-
6. securities placement	556	1,374
7. order collection and transmission	592	573
8. advisory services	606	498
8.1 concerning investments	-	-
8.2 concerning financial structure	606	498
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other	-	-
d) collection and payment services	**23,947**	**22,905**
e) servicing activities for securitizations	**-**	**-**
f) services for factoring transactions	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading systems	**-**	**-**
i) holding and management of current accounts	**131**	**125**
j) other services	**145,508**	**139,115**
TOTAL	**178,728**	**173,118**

"Other services" mainly regard electronic money.

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
a) guarantees received	**-**	**-**
b) credit derivatives	**-**	**-**
c) management and intermediation services:	**(3,512)**	**(4,178)**
1. trading in financial instruments	(848)	(634)
2. foreign exchange	(25)	(32)
3. asset management:		-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(2,022)	(2,238)
5. placement of financial instruments	(617)	(1,274)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**(2,992)**	**(2,894)**
e) other services	**(108,934)**	**(106,118)**
TOTAL	**(115,438)**	**(113,190)**

“Other services” mainly regard electronic money.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

This item reports dividends on shares or units other than those accounted for using the equity method. It also includes dividends and other income on units in collective investment undertakings.

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		TOTAL AT 30/06/2017		TOTAL AT 30/06/2016	
		DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS
A.	Financial assets held for trading	112	-	22	-
B.	Financial assets available for sale	1,763	-	278	-
C.	Financial assets at fair value	-	-	-	-
D.	Equity investments	23,190	X	-	X
	TOTAL	**25,065**	**-**	**300**	**-**

Dividends received mainly regarded:

- BCC Credito Consumo €9 million
- BCC Risparmio e Previdenza €5.9 million
- BCC Solutions €4 million
- Bcc Vita €4.2 million

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

The item reports the overall difference in respect of:

a) the balance of gains and losses on transactions classified under "financial assets held for trading" and "financial liabilities held for trading", including the outcome of the measurement of such transactions. It does not include gains and losses on derivatives associated with the fair value option, which are reported in part under interest in items 10 and 20, and in part under "net gain (loss) on financial assets and liabilities at fair value through profit or loss" (item 110 of the income statement);

b) the balance of gains and losses on financial transactions other than those designated as at fair value and hedge transactions, denominated in foreign currency, including the outcome of the measurement of such transactions.

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	CAPITAL GAINS (A)	TRADING PROFITS (B)	CAPITAL LOSSES (C)	TRADING LOSSES (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
1. Financial assets held for trading	**48**	**8,459**	**(444)**	**(2,498)**	**5,565**
1.1 Debt securities	20	7,708	(106)	(2,371)	5,251
1.2 Equity securities	28	682	(270)	(124)	316
1.3 Units in collective investment undertakings	-	68	(68)	(3)	(3)
1.4 Loans	-	-	-	-	-
1.5 Other	-	1	-	-	1
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables		-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**70,695**
4. Derivatives	**49,179**	**70,733**	**(53,936)**	**(66,706)**	**(67,623)**
4.1 Financial derivatives:	49,179	70,733	(53,936)	(66,706)	(67,623)
- on debt securities and interest rates	46,785	68,220	(53,844)	(61,989)	(828)
- on equity securities and equity indices	1,832	31	(63)	(1,923)	(123)
- on foreign currencies and gold	X	X	X	X	(66,893)
- other	562	2,482	(29)	(2,794)	221
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**49,227**	**79,192**	**(54,380)**	**(69,204)**	**8,637**

SECTION 5 - NET GAIN (LOSS) ON HEDGING ACTIVITIES – ITEM 90

The item reports the overall difference in respect of:

a) the outcome of the measurement of fair value hedges;

b) the outcome of the measurement of the financial assets and liabilities covered by fair value hedges;

c) the positive or negative differences and margins on hedge derivatives other than those reported under interest.

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

		TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
A.	**Gain on:**		
A.1	Fair value hedges	6,290	3,159
A.2	Hedged financial assets (fair value)	826	15,334
A.3	Hedged financial liabilities (fair value)	-	12
A.4	Cash flow hedges	566	-
A.5	Assets and liabilities in foreign currencies	5,997	912
TOTAL INCOME ON HEDGING ACTIVITIES (A)		**13,679**	**19,417**
B.	**Loss on:**		
B.1	Fair value hedges	(1,884)	(13,205)
B.2	Hedged financial assets (fair value)	(3,643)	(2,146)
B.3	Hedged financial liabilities (fair value)	(1,177)	(2,677)
B.4	Cash flow hedges	(7,353)	(1,073)
B.5	Assets and liabilities in foreign currencies	-	-
TOTAL EXPENSE ON HEDGING ACTIVITIES (B)		**(14,058)**	**(19,101)**
C.	**NET GAIN (LOSS) ON HEDGING ACTIVITIES (A - B)**	**(379)**	**316**

The amounts regard the following transactions:

- hedges of Italian government BTPs, both fixed rate and inflation-indexed, using asset swaps;
- hedges of 4 bonds issued by the Bank using interest rate swaps and interest rate options;
- hedges of 4 U.S. dollar bonds issued by the Bank using cross currency interest rate swaps;
- hedges of loan to BCC Solutions using interest rate swaps;
- hedges of treasury deposits using overnight indexed swaps;
- hedges of cash flows on inflation-indexed Italian government BTPs;
- macro-hedges of portfolios of deposits using overnight indexed swaps);
- hedge of one corporate bond using an asset swap.
- hedge of one Banca IMI bond using an asset swap.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or liabilities other than those held for trading or designated as at fair value.

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	TOTAL AT 30/06/2017			TOTAL AT 30/06/2016		
	GAINS	LOSSES	NET GAIN (LOSS)	GAINS	LOSSES	NET GAIN (LOSS)
Financial assets						
1. Due from banks	9	(1)	8	3	(43)	(40)
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	29,762	(3,930)	25,832	65,739	(12,460)	53,279
3.1 Debt securities	20,167	(3,930)	16,237	33,584	(12,460)	21,124
3.2 Equity securities	9,595	-	9,595	32,155	-	32,155
3.3 Units in collective investment undertakings	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
TOTAL ASSETS	**29,771**	**(3,931)**	**25,840**	**65,742**	**(12,503)**	**53,239**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	212	(1,273)	(1,061)	285	(2,625)	(2,340)
TOTAL LIABILITIES	**212**	**(1,273)**	**(1,061)**	**285**	**(2,625)**	**(2,340)**

The gain on the disposal of equity securities regards the shares of Visa Inc and Cattolica.

SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE – ITEM 110

This section reports the positive or negative balance between gains and losses on financial assets/liabilities at fair value and the operationally connected instruments for which the fair value option has been exercised, including the impact of the fair value measurement of such instruments (see also section 3 of assets and section 5 of liabilities).

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE: COMPOSITION

	CAPITAL GAINS (A)	PROFITS ON REALIZATION (B)	CAPITAL LOSSES (C)	LOSSES ON REALIZATION (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
1. Financial assets	**581**	-		-	**581**
1.1 Debt securities	581	-	-	-	581
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	

SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

This item reports the balance of writedowns and writebacks in respect of the impairment of loans to customers and banks, financial assets available for sale, financial assets held to maturity and other financial transactions..

8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT: COMPOSITION

	LOSSES (1)			RECOVERIES (2)				TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER		A	B	A	B		
A. Due from banks	**-**	**(260)**	**-**	**-**	**-**	**-**	**-**	**(260)**	**2,923**
- Loans	-	-	-	-	-	-	-	-	2,923
- Debt securities	-	(260)	-	-	-	-	-	(260)	-
B. Loans to customers:	**-**	**(136)**	**(9)**	**41**	**1,188**	**-**	**127**	**1,211**	**329**
Impaired receivables acquired	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other receivables	-	(136)	(9)	41	1,188	-	127	1,211	329
- Loans	-	(136)	(9)	41	1,188		127	1,211	329
- Debt securities	-	-	-	-	-	-	-	-	-
C. TOTAL	**-**	**(396)**	**(9)**	**41**	**1,188**		**127**	**951**	**3,252**

Key:
A: Recoveries from interest
B: Other recoveries

"Recoveries from interest" report writebacks associated with the passage of time, corresponding to the interest accrued during the period at the original effective interest rate previously used to calculate the writedown.

8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	LOSSES (1)		RECOVERIES (2)		TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
	SPECIFIC		SPECIFIC			
	WRITEOFFS	ALTRE	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	-	-	-	-	-
C. Units in CIUs	-	(31,722)	-	-	(31,722)	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
E. TOTAL		**(31,722)**			**(31,722)**	

The figure for units in CIUs includes €9,175 thousand in respect of the Securis funds and €22,547 thousand for Fondo Atlante.

8.3 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION

The section has not been completed because there were no such positions as of the balance sheet date.

8.4 NET LOSSES/RECOVERIES ON IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS: COMPOSITION

	LOSSES (1)			RECOVERIES (2)				TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER	PORTFOLIO	A	B	A	B		
A. Guarantees issued	-	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	(5)	(181)	-	-	-	-	-	(186)	(1,271)
E. TOTAL	**(5)**	**(181)**						**(186)**	**(1,271)**

"Losses" reports amounts associated with the mutual bank deposit guarantee fund for the division and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

SECTION 9 - ADMINISTRATIVE EXPENSES – ITEM 150

In addition to expenses in respect of employees, personnel expenses include:

- expenses for Bank employees seconded to other companies and the related recovery of costs;
- expenses in respect of persons hired on atypical contracts;
- reimbursements of expenses for employees of other companies seconded to the Bank;
- the compensation of directors and members of the Board of Auditors.

9.1 PERSONNEL EXPENSES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
1) Employees	**(38,480)**	**(30,148)**
a) wages and salaries	(27,461)	(20,970)
b) social security contributions	(6,959)	(5,391)
c) termination benefits	(512)	(573)
d) pensions	-	-
e) allocation to employee termination benefit provision	(91)	(158)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution		-
- defined benefit	-	-
g) payments to external pension funds:	(1,884)	(1,624)
- defined contribution	(1,884)	(1,624)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(1,573)	(1,432)
2) Other personnel	**(53)**	**(5)**
3) Board of Directors and members of Board of Auditors	**(805)**	**(4)**
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	**3,082**	**4,378**
6) Reimbursement of expenses for third-party employees seconded to the Company	**(2,584)**	**(675)**
TOTAL	**(38,840)**	**(26,454)**

The increase mainly reflects the merger of Iccrea Holding into Iccrea Banca.

For more information, please see the report on operations

9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
Information technology	**(33,793)**	**(33,322)**
Property and movables	**(8,329)**	**(402)**
Rental and fees	(8,329)	(402)
Cleaning		-
Security		-
Goods and services	**(5,707)**	**(3,641)**
Telephone and data transmission	(2,581)	(745)
Postal	(1,939)	(1,983)
Valuables transport and counting	(65)	(241)
Electricity, heating and water		(129)
Transportation	(589)	(272)
Office supplies and printed materials	(532)	(271)
Subscriptions, magazines and newspapers		-
Professional services	**(9,012)**	**(4,525)**
Professional fees	(3,792)	(2,812)
Audit fees	(266)	(77)
Legal and notary costs	(493)	(730)
Court costs, information and title searches		(1)
Insurance	(523)	(257)
Administrative services	(3,938)	(647)
Advertising and entertainment	**(887)**	**(716)**
Association dues	**(1,935)**	**(1,368)**
Charity	**(3)**	-
Other	**(1,785)**	**(10,124)**
Indirect taxes and duties	**(26,216)**	**(15,741)**
Stamp duty	(6,994)	(6,543)
Long-term loan tax - Pres. Decree 601/73		
Municipal property tax		-
Duties on stock exchange contracts	(8)	(29)
Other indirect taxes and duties	(19,214)	(9,169)
TOTAL	**(87,668)**	**(69,839)**

The increase essentially reflects the merger with Iccrea Holding and the recognition of the entire contribution to the Resolution Fund (BRRD) for 2017.

SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

This item reports the positive or negative balance between accruals and any reversals to the income statement of excess provisions in respect of the provisions referred to under sub-item b) ("Other provisions") of item 120 ("Provisions for risks and charges") of liabilities.

10.1 NET PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
Net provisions for risks and charges	**(214)**	**(526)**

SECTION 11 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT – ITEM 170

This section reports the balance of writedowns and writebacks of property and equipment.

11.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	DEPRECIATION (A)	WRITEDOWNS FOR IMPAIRMENT (B)	WRITEBACKS (C)	NET ADJUSTMENT (A + B - C)
A. Property and equipment				
A.1 owned	(1,444)	-	-	(1,444)
- operating assets	(1,444)	-	-	(1,444)
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
TOTAL	**(1,444)**			**(1,444)**

SECTION 12 - NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 180

This section reports the balance of writedowns and writebacks of intangible assets.

12.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	AMORTIZATION (A)	WRITEDOWNS FOR IMPAIRMENT (B)	WRITEBACKS (C)	NET ADJUSTMENTS (A + B - C)
A. Intangible assets	(2,351)	-	-	(2,351)
A.1 owned	(2,351)	-	-	(2,351)
- generated internally by the Bank	-	-	-	
- other	(2,351)	-	-	(2,351)
A.2 acquired under finance leases	-	-	-	
TOTAL	**(2,351)**			**(2,351)**

SECTION 13 - OTHER OPERATING EXPENSES/INCOME – ITEM 190

This item reports expenses and income not allocable to other accounts.

13.1 OTHER OPERATING EXPENSES: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
Other charges	(167)	(82)
Total	**(167)**	**(82)**

13.2 OTHER OPERATING INCOME: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
Property rental income		
Recoveries:		
- Stamp duty	5,586	5,178
- Tax on loan transactions	24	17
Revenues from Milano Finanza Web services and Swift fees	1,249	281
Revenues for personnel administration services	257	287
Insourcing revenues	3,157	3,362
Other income	2,910	1,962
TOTAL	**13,182**	**11,087**

SECTION 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 210

14.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
A. Income		
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expense	**(223)**	**-**
1. Writedowns	-	-
2. Impairment losses	(223)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(223)**	

The amount regards the coverage of the loss of the investee Ventis Srl.

SECTION 15 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 220

There were no such positions as of the balance sheet date..

SECTION 16 - VALUE ADJUSTMENTS OF GOODWILL – ITEM 230

There were no such positions as of the balance sheet date.

SECTION 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

There were no such positions as of the balance sheet date.

SECTION 18 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 260

The item reports the tax liability – equal to the balance of current taxes and deferred taxes – in respect of income for the period.

18.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

		TOTAL AT 30/06/2017	TOTAL AT 30/06/2016
1.	Current taxes (-)	6,005	(13,603)
2.	Changes in current taxes from previous periods (+/-)	660	(33)
3.	Reduction of current taxes for the period (+)	-	-
3. bis	Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	-
4.	Change in deferred tax assets (+/-)	6,297	(348)
5.	Change in deferred tax liabilities (+/-)	1,144	572
6.	**INCOME TAXES FOR THE PERIOD (-) (-1+/-2+3+3 bis+/-4+/-5)**	**14,107**	**(13,412)**

18.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

I.R.E.S.	6,980
I.R.A.P.	(975)

SECTION 19: PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 280

This item reports the positive or negative balance of income (interest, fees and commissions, etc.) and charges (interest expense, etc.) in respect of groups of assets and liabilities (disposal groups)held for sale, net of current and deferred taxation.

19.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION

The section was not completed as there were no such positions as of the balance sheet date..

19.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

The section was not completed as there were no such positions as of the balance sheet date..

SECTION 20 - OTHER INFORMATION

It was not felt necessary to add further information other than that already provided in the previous tables.

SECTION 21 - EARNINGS PER SHARE

21.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

The section was not completed as there were no such positions as of the balance sheet date.

PART D

Comprehensive income

PART D – COMPREHENSIVE INCOME

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10.	**Net profit (loss) for the period**	X	X	1,078,443
	Other comprehensive income not recyclable to profit or loss			-
20.	**Property and equipment**	-	-	-
30.	**Intangible assets**	-	-	-
40.	**Defined-benefit plans**	302,115	(83,082)	219,033
50.	**Non-current assets held for sale**	-	-	-
60.	**Valuation reserves of equity investments accounted for with equity method**	-	-	-
	Other comprehensive income recyclable to profit or loss			-
70.	**Hedging of investments in foreign operations:**	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
80.	**Foreign exchange differences:**	-	-	-
	a) value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedges:**	649,090	(214,654)	434,436
	a) fair value changes	(6,704,329)	2,217,121	(4,487,207)
	b) reversal to income statement	7,353,419	(2,431,776)	4,921,643
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	(8,509,462)	1,973,833	(6,535,628)
	a) fair value changes	3,192,330	(647,079)	2,545,251
	b) reversal to income statement	(11,701,791)	2,620,912	(9,080,879)
	- impairment adjustments	-	-	-
	- gain/loss on realization	(11,701,791)	2,620,912	(9,080,879)
	c) other changes			
110.	**Non-current assets held for sale:**	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
120.	**Valuation reserves of equity investments accounted for with equity method (pro rata):**	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	- impairment adjustments	-	-	-
	- gain/loss on realization	-	-	-
	c) other changes	-	-	-
130.	**Total other comprehensive income**	(7,558,257)	1,676,098	(5,882,159)
140	**Comprehensive income (item 10+130)**	(7,558,257)	1,676,098	(4,803,716)

Part E

Risks and risk management policies

PART E – RISKS AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

The risk management function is based on the CRO area, which is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the CRO area, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

In recent years, the Group has undertaken a gradual process to upgrade its methods and tools for managing credit, financial and operational risks, bringing the system into line with external regulations and operational and internal monitoring needs. In order to increase the effectiveness and efficiency of internal controls and respond to changes in the regulatory environment and the organizational, operational and corporate structure of the Group, in 2016 a number of changes were made to the organization of second-level control units (Risk Management, Compliance and Anti-Money Laundering). The main changes involved:

- a revision of the CRO area, which retained its powers and responsibilities in the risk management field, including IT risk, but with the reassignment of responsibility for managing risks associated with compliance, money-laundering and terrorist financing to another unit;
- the establishment of the CCO area, reporting directly to the Board of Directors of the Parent Company, to manage compliance risk and money-laundering and terrorist financing risk.

During 2017, consistent with developments in the corporate governance project and with a view to implementing the organizational measures associated with the adoption of a governance model for the Risk Management function centralized within the CRO area of the Parent Company, for all of the Group's banks and financial companies, an evolutionary reorganization of the Group Risk Management department was completed. The reorganization was carried out in such a way so as to ensure that the individual Risk Management units in the various companies continue to report directly to the boards of directors of each subsidiary.

In this context and in consideration of the needs that have arisen in relation to the implementing measures associated with the reform of the mutual banking system, the main lines of development underpinning that reorganization concerned:

- the transformation of the Parent Company into a bank through the merger of Iccrea Holding and Iccrea Banca, which from a forward-looking perspective made it necessary to structure strong credit risk management arrangements within the Parent Company, which had already existed at the Group level but were organizationally distributed among the subsidiaries whose core business was lending;
- the start of work on the project to create the new Mutual Banking Group (MBG), with the significant involvement of the Risk Management department, giving rise to:
  - the need to implement an organizational structure to support the planning activity itself, with the incorporation of targeted organizational development measures, with a view to streamlining arrangements;
  - the need to create the conditions for the multi-tasking phase of the project, making it essential to introduce greater organizational flexibility in order to maximize the individual contribution of the senior staff of the unit;
  - the need to ensure that organizational evolution was temporary, designed to remain in place for a period limited to some 12-18 months: the organizational structure and the internal organization (roles and responsibilities of personnel) of the Risk Management function of the new Mutual Banking Group will only be determined at the end of the project;
  - the need to implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation. A special emphasis was placed on relations with the supervisory authorities, which in the transition phase will certainly focus specific

attention on the continuing compliance of the Iccrea Banking Group with regulatory requirements while the project is being developed and on the requirements for the formation and authorization of the new MBG;
- the desire to retain the governance arrangements of the CRO area, with functional responsibility centralized with the Parent Company and the distribution of local units with the subsidiaries and the need to maximize the contribution of all senior staff, including those who joined the Group most recently.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved the following organizational measures:

- the retention of functional responsibility for the Risk Management function with the Parent Company. More specifically the Risk Manager position at the Parent Company was assigned to the CRO, while at the individual companies that role is filled by the Heads of the Risk Management units of the subsidiaries, who continue to report functionally to the CRO area, consistent with the operational characteristics of those companies, and to the Board of the subsidiary to which they belong;
- the shifting of the Bank Risk unit, which previously reported functionally to the Financial Risk unit, to reporting directly to the CRO, as a natural development of risk management arrangements in response to the reform project under way;
- the rationalization of the risk management arrangements of Iccrea BancaImpresa, which continues to report functionally to the Credit Risk Management unit of Iccrea Banca, which is in turn organized into two units:
  - Models and Risk Policy;
  - Risk Analysis and Monitoring.
- the creation of a specific unit for operating continuity with the assignment of the functional role of BCMS.

- STRUCTURE OF THE CRO AREA

Following the above reorganization, the CRO area is structured into five units:

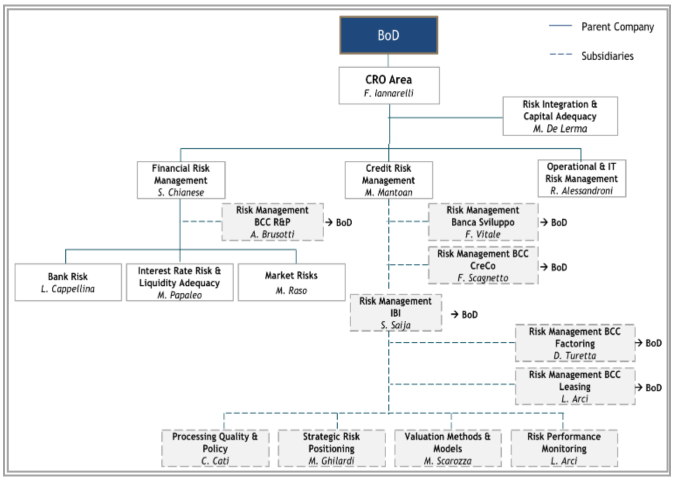
- Risk Integration & Capital Adequacy;
- Bank risk;
- Financial Risk Management;
- Credit Risk Management;
- Operational & IT Risk Management.

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the CRO area on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business. More specifically:

- the Risk Management units of the subsidiaries report functionally to:
  - the Credit Risk Management unit of the Parent Company for Iccrea BancaImpresa SpA, Banca Sviluppo SpA, BCC Credito Consumo SpA, BCC Lease SpA and BCC Factoring SpA;
  - the Financial Risk Management unit of the Parent Company for BCC Risparmio e Previdenza SGRpA.

The Operational & IT Risk Management unit operates as a specialized hub for the entire Group, with responsibility for providing guidance and technical support to the risk management units of all Group companies in the area of operational and IT risks.

In view of the above developments, the following chart shows the new organizational configuration of the Risk Management function of the Iccrea Banking Group as from January 27, 2017:



MAIN DUTIES OF THE CRO AREA

The responsibilities of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. In supporting the operations of the Iccrea Banking Group, the CRO area:

- participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP.

  The framework for the assumption and management of the risks is formed of:
  - the organizational units and corporate processes (operating, administrative and business), including line controls;
  - support tools;
  - risk governance policies (policies, limits and powers);
  - methodologies;
  - risk measurement and assessment criteria;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:
  - develops risk measurement and assessment methods and models;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;
  - identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
  - identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
  - assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The ICCREA Banking Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Iccrea Banking Group. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- **Risk identification (knowledge):** this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).

- **Assessment/measurement of the identified risks (awareness):** this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).

- **Risk prevention and attenuation (strategy):** this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.

- **Monitoring and reporting (tracking and control):** this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).

- **Risk management and mitigation (reaction and proactivity):** this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

The organizational unit of Iccrea Banca responsible for assuming and managing credit risk is the Loans department, which is responsible for developing – in conformity with the strategic objectives of the Bank – the operational plans for lending activities. In addition, it also manages – within the scope of its operational responsibilities - lending activities for the purpose of granting loans and operating credit in support of the operations of the various business lines as well as relations with correspondents abroad. It also plays a role, in coordination with the Risk Management unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and loans to bank counterparties. In addition, it manages exposures classified as impaired past due/overlimit or unlikely to be repaid, as well as registering/controlling loan positions in the information system.

In general, the Loans department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

Within the CRO area, the Bank Risk unit manages exposures in respect of banks and other financial intermediaries, managing monitoring systems and models for the assessment of bank creditworthiness and develops policy recommendations with regard to the assumption and management of risk. It is also responsible for second-level control of the risks assigned to it.

More specifically, the unit is responsible for promoting the adoption of procedures for assuming, managing and controlling credit risk designed to guarantee effective management of such risk in line with the principles set out in supervisory regulations and management requirements. The unit also produces independent reporting on such risks, participating in updating and developing rules governing credit risk, with particular regard to delegated powers and operational limits.

In order to manage credit risk, credit exposure is segmented into portfolios on the basis of the type of loan/credit facility and type of counterparty (mutual banks, other banks, ordinary customers).

Further segmentation is carried out within each customer segment on the basis of the technical form (current account overdrafts, loans, etc.) and maturity (short, medium and long term).

The credit process is organized into the following phases:

- Start of application processing: collection of data need to start the lending/loan revision process with a specific counterparty;
- Processing: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- Decision proposal: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- Authorization: approval of the decision by the decision-making body and start of authorized operations;
- Monitoring: tracking of specific performance indicators (performance controls) and structural assessment of the overall risk profile of the borrower (performance monitoring).

2.2 MANAGEMENT, MEASUREMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized for accounting purposes.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral). A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of Iccrea Banca are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

MEASUREMENT AND VALUATION OF RISKS

For the purpose of calculating prudential requirements for credit risk, the Iccrea Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the CRO area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control unites of the Group companies to agree methodological issues where appropriate.

The assessment framework is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "modules", called Structural and Performance. The assessment of counterparty creditworthiness begins with an analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A Risk Ceiling is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The Risk Ceiling takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite.

The Risk Ceiling is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the Risk Ceiling. Two warning thresholds are also specified, which if exceeded trigger the transmission of a report from Risk Management to the Loans department and/or senior management for corrective action and subsequent reporting to the Board of Directors.

RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the *Financial Institutions* business line, the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.

MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the CRO area.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

2.3 CREDIT RISK MITIGATION TECHNIQUES

A series of measures have been developed to upgrade the Bank's organizational and IT resources in order to create effective structural and process arrangements that ensure full compliance with the organizational, financial and legal requirements under the new regulations and govern the entire process of acquiring, assessing, controlling and realizing instruments used to mitigate credit risk. Guarantees eligible for mitigation of credit risk are specified in an "analytic guarantee chart", which provides a specific description of all the information necessary for correct use of the security. The types of eligible guarantee must be approved by the Board of Directors. Iccrea Banca also acquired financial guarantees in respect of "collateral pool" operations backing credit facilities for mutual banks. Pursuant to the provisions of Legislative Decree 170/2004, these guarantees are included, under the rules set out in supervisory instructions, among eligible credit risk mitigation techniques (see Bank of Italy Circular no. 285/2013, Part 2, Chapter 5).

Re-examination has begun of mortgage guarantees already acquired by the Bank covering existing real estate loans, and an electronic database containing their details is being prepared in order to enable for systematic monitoring of their value. A similar effort is being made for all lien security already acquired by the Bank.

Within the context of over-the counter derivative transactions, Iccrea Banca uses a "close-out netting" mechanism with mutual banks providing for the right to terminate pending relationships immediately with the offsetting of reciprocal positions and payment of the net balance in the event of the counterparty's default or bankruptcy. This netting technique is also used for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see EU Regulation no. 575/2013, Title II, Part 3, Chapter 6, Section 7, Article 296).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans Technical Secretariat uses electronic systems for operating with the government office responsible for cancelling encumbrances in respect of repaid loans.

In order to mitigate the credit risk associated with trading in financial derivative instruments with bank counterparties (counterparty risk), Iccrea Banca uses bilateral netting arrangements that in the event of counterparty default enable offsetting of creditor and debtor positions in financial derivatives transactions, as well as for securities financing transactions (SFTs).

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, counterparty risk is mitigated using the centralized clearing system of LCH and bilateral netting arrangements (ISDA and/or master agreements) and margining agreements (i.e. Credit Support Annexes (CSA)) for financial instruments and types of market counterparty not currently present on the LCH system. At June 30, 2017, credit exposures in respect of transactions in derivatives were covered by 187 margin agreements (CSA), of which 46 with market counterparties and 141 with mutual bank industry counterparties.

As for repos, 10 GRMAs (Global Master Repurchase Agreements) were entered into.

2.4 IMPAIRED FINANCIAL ASSETS

PROCEDURES FOR CLASSIFYING ASSETS BY DEBTOR QUALITY

The Bank is equipped with regulatory/IT structures and procedures for loan management, classification and control.

In line with the provisions of the IASs/IFRSs, at every reporting date the presence of objective evidence of impairment is assessed for every instrument or group of financial instruments.

Objective evidence of the impairment of a financial asset or group of financial assets consists of observable data regarding the following events:

- significant financial difficulties of the debtor;
- breach of contractual agreements, such as default or delinquency in paying interest or principal;
- the lender, for economic or legal reasons associated with the borrower's financial difficulties, grants the debtor concessions that the lender would not otherwise have considered;
- a high probability of the debtor's entering bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset as a result of the debtor's financial difficulties (a case not relevant for the current types of loans to banks/customers);
- the existence of evidence indicating a quantifiable decrease in estimated future cash flows for a group of assets, after initial recognition, even if such decrease cannot yet be ascribed to the individual position:
  - a reduction in the debtor's ability to discharge its liability in respect of the group of assets it holds;
  - international, national or local conditions that could give rise to default in respect of a group of receivables.

The above assessment is conducted with the support of special IT screening procedures on the basis of information from internal and external sources.

Within the scope of testing for the existence of objective evidence of impairment, non-performing loans are classified in the following categories:

- bad debts: loans to borrowers in a state of insolvency (even if bankruptcy has not been declared by a court) or in substantially equivalent situations, regardless of any expectations of loss formulated by the company;
- positions unlikely to be repaid: credit exposures other than bad debts to borrowers that the Bank believes are unlikely to discharge their credit obligations in full (principal and/or interest) without recourse to actions such as enforcement of guarantees;
- impaired past due/overlimit exposures: exposures other than bad debts or positions likely to be unpaid that as of the reporting date are past due/overlimit by more than 90 days and exceed a specified materiality threshold.

FORBORNE EXPOSURES

An additional classification is made for credit exposures that have been granted some form of forbearance, which are divided into:

- non-performing exposures with forbearance measures: depending on the circumstances, these represent a subset of bad debts, positions unlikely to be repaid or impaired past due/overlimit exposures; they do not represent a separate category of impaired assets;
- other exposures with forbearance measures, which correspond to forborne performing exposures and are therefore classified under performing exposures.

FACTORS ENABLING RECLASSIFICATION OF IMPAIRED EXPOSURES TO PERFORMING STATUS

Only the return to full solvency of the debtor permits restoration of performing status. This comprises:

- elimination of the entire exposure or repayment of arrears;
- regularization of the exposure.

ASSESSMENT OF THE ADEQUACY OF WRITEDOWNS

Loans are recognized at estimated realizable value. This value is obtained by deducting specific and general writedowns of principal and interest, net of any repayments, from the total amount disbursed.

Calculation of expected loss is based on analytical and statistical methodologies. The latter are used for personal loans classified as bad debts and for calculating normal risk.

The analytical assessment of non-performing positions is based on standard criteria approved by the Board of Directors that incorporate prudential assessments of any guarantees securing repayment.

In particular, impaired exposures are analytically evaluated on the basis of:

- forecast of future recovery of the credit position – with the exclusion of future losses that have not yet emerged – using different procedures depending on the type of loan:
  - for personal loans classified as bad debts the recovery forecast is determined using a statistical method based on stratification based on the age of the position, considering amounts collected and losses on past cases from which, with appropriate calculations, an estimated loss percentage can be determined for application to the entire existing portfolio;
  - for other loans, general writedowns based on statistical techniques that, using the values calculated for rates of default and non-recoverability, contribute to the calculation of a prudential coverage ratio;
- recovery times;
- expected realization of any guarantees, taking account of estimated collection/liquidation expenses, which must be incorporated into the expected future cash flows.

The writedown is recognized in the income statement as the difference between the initial carrying amount of the asset and the present value of the estimated recoverable cash flows, discounted at the original effective interest rate of the financial asset at the moment of classification as non-performing.

The original value of the receivable is written back in subsequent years if the reasons for the writedown no longer obtain.

Quantitative disclosures

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	BAD DEBTS	UNLIKELY TO BE REPAID	IMPAIRED PAST DUE EXPOSURES	UNIMPAIRED PAST DUE POSITIONS	OTHER UNIMPAIRED POSITIONS	TOTAL
1. Financial assets available for sale					3,134,420	3,134,420
2. Financial assets held to maturity					4,388,352	4,388,352
3. Due from banks					30,265,986	30,265,986
4. Loans to customers	18,933	1,455	2	1,491	3,130,234	3,152,115
5. Financial assets at fair value					15,140	15,140
6. Financial assets held for sale	-	-	-	-	-	-
TOTAL AT 30/06/2017	**18,933**	**1,455**	**2**	**1,491**	**40,934,132**	**40,956,013**
TOTAL AT 31/12/2016	**18,478**	**1,400**	**76**	**1,569**	**41,926,167**	**41,947,690**

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	IMPAIRED ASSETS			UNIMPAIRED ASSETS			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	
1. Financial assets available for sale				3,134,420		3,134,420	3,134,420
2. Financial assets held to maturity				4,388,352		4,388,352	4,388,352
3. Due from banks				30,265,986		30,265,986	30,265,986
4. Loans to customers	53,643	33,254	20,389	3,132,634	909	3,131,724	3,152,113
5. Financial assets at fair value						15,140	15,140
6. Financial assets held for sale	-	-	-	-	-	-	-
TOTAL AT 30/06/2017	**53,643**	**33,254**	**20,389**	**40,921,392**	**909**	**40,935,622**	**40,956,011**
TOTAL AT 31/12/2016	**56,519**	**36,564**	**19,955**	**41,913,944**	**768**	**41,927,735**	**41,947,690**

	ASSETS WITH EVIDENTLY POOR CREDIT QUALITY		OTHER ASSETS
	CUMULATIVE LOSSES	NET EXPOSURE	NET EXPOSURE
1. Financial assets held for trading	-	-	466,893
2. Hedging derivatives	-	-	7,373
TOTAL AT 30/06/2017	**-**	**-**	**474,266**
TOTAL AT 31/12/2016	**-**	**-**	**434,997**

A.1.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS VALUES, NET VALUES AND TIME PAST DUE

	GROSS EXPOSURE					SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS			
	UP TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to be repaid	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Impaired past due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other unimpaired assets	X	X	X	X	30,507,376	X	-	30,507,376
- of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A AT 30/06/2017	**-**	**-**	**-**	**-**	**30,507,376**	**-**	**-**	**30,507,376**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	706,337	X	-	706,337
TOTAL B AT 30/06/2017	**-**	**-**	**-**	**-**	**706,337**	**-**	**-**	**706,337**
TOTAL A+B AT 30/06/2017	**-**	**-**	**-**	**-**	**31,213,713**	**-**	**-**	**31,213,713**

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS VALUES, NET VALUES AND TIME PAST DUE

	GROSS EXPOSURE					SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS			
	UP TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	-	-	-	52,024	X	33,091	X	18,933
- of which: forborne exposures	-	-	-	224	X	29	X	195
b) Unlikely to be repaid	304	-	702	611	X	162	X	1,455
- of which: forborne exposures	241	-	301	55	X	108	X	488
c) Impaired past due exposures	-	1	1	-	X	-	X	2
- of which: forborne exposures	-	-	-	-	X	-	X	
d) Unimpaired past due exposures	X	X	X	X	1,495	X	4	1,491
- of which: forborne exposures	X	X	X	X	-	X		
e) Other unimpaired exposures	X	X	X	X	10,441,702	X	905	10,440,797
- of which: forborne exposures	X	X	X	X	680	X	6	674
TOTAL A AT 30/06/2017	**304**	**1**	**703**	**52,635**	**10,443,197**	**33,253**	**909**	**10,462,678**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	925,450	X	-	925,450
TOTAL B AT 30/06/2017	**-**	**-**	**-**	**-**	**925,450**	**-**	**-**	**925,450**
TOTAL A+B AT 30/06/2017	**304**	**1**	**703**	**52,635**	**11,368,647**	**33,253**	**909**	**11,388,128**

C. SECURITIZATIONS

Quantitative disclosures

C.1 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

The table has not been completed because there were no such positions as of the balance sheet date.

C.2 EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	ON-BALANCE-SHEET EXPOSURES						GUARANTEES ISSUED						CREDIT LINES					
	SENIOR		MEZZANINE		JUNIOR		SENIOR		MEZZANINE		JUNIOR		SENIOR		MEZZANINE		JUNIOR	
	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS	CARRYING AMOUNT	WRITEDOWNS / WRITEBACKS
A.1 Lucrezia Securitization																		
- bad debts	8,184	260	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The amount regards a debt security issued by the vehicle Lucrezia Securitization as part of the crisis resolution measures for Banca Padovana Credito Cooperativo in A.S. and BBC Irpina in A.S. The security matures on October 3, 2026 and has a yield of 1%.

C.3 Involvement in special purpose vehicles

The table has not been completed because there were no such positions as of the balance sheet date.

C.4 Non-consolidated special purpose vehicles

The table has not been completed because there were no such positions as of the balance sheet date.

C.5 Servicer activities – own securitizations - collections on securitized assets and redemption of securities issued by vehicle

The table has not been completed because there were no such positions as of the balance sheet date.

F. MODELS FOR MEASURING CREDIT RISK

At the date of the financial statements, no internal models were used for measuring credit risk.

SECTION 2 - MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. General aspects

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 285/2013 as updated). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS exchange;
- acting as a market maker and direct participant (for transmission of orders from mutual banks) on the Hi-MTF and EuroTLX multilateral trading systems;
- participating in the primary market for share and bond placements and in tenders and subscriptions of government securities;
- negotiating repurchase agreements on both OTC and regulated markets, and derivatives on regulated markets;
- structuring, executing and managing financial derivatives traded on unregulated markets, mainly to satisfy the specific needs of the Bank's customers;
- providing the mutual banks with investment services, trading on own account, order execution for customers, order reception and transmission, trading on behalf of third parties and the placement of financial instruments issued by the Bank and by third parties;
- providing the mutual banks with access to standing facilities with the ECB;
- management of liquidity and the short-term interest rate profile in respect of transactions on the interbank, foreign exchange and precious metals markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the context of operating powers, specific operational limits on trading positions that generate exposures to market risks have been established. These risks are assumed in respect of domestic government securities and futures contracts, traded on official markets with netting and guarantee mechanisms, as well as mainly plain vanilla interest rate derivatives to support the mutual banks' hedging requirements.

Transactions in interest rate derivatives also include interest rate swaps with institutional counterparties to support the special purpose vehicle in transforming interest flows generated by securitizations of receivables of the mutual banks and the companies of the Iccrea Banking Group. Overall exposure to interest rate risk is concentrated in transactions in euros. As a result, the impact of correlation between developments in the yield curves for other currencies is minimal.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The market risk management and governance framework of the Iccrea Banking Group adopts a "centralized" approach. Iccrea Banca, as Parent Company, is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group's market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate risk and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

IDENTIFICATION OF RISKS

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. Market risks also include foreign exchange risk, which in view of the Group's operations is immaterial. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

RISK MEASUREMENT AND ASSESSMENT

Risk Management, acting through the Market Risks unit, is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- *Probabilistic metrics*:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- *Deterministic metrics:*
  - Level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - Analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - Stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - Loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

To calculate VaR, Iccrea Banca uses the so-called Delta Gamma parametric approach (confidence level of 99% and holding period of 1 day), in which the risk factors and the financial instruments in the portfolio have a normal distribution. Measuring VaR therefore involves calculating (i) the sensitivity of the individual positions to changes in market parameters, summarized in the so-called VaRMap; and (ii) the variance/covariance matric of the market parameters. The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility;
- equity prices;
- volatility of equities.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Backtesting

In order to monitor the robustness of the measurement models, the Group conducts backtesting of models on an ongoing basis, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, the backtesting is conducted using management P&L. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the management P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations). The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements.

The backtesting of the VaR model with respect to profit and loss conducted in 2016 found a percentage of overshooting that was slightly higher than that felt admissible for approval of the internal models for regulatory purposes. Accordingly, in the current market environment with historically low interest rates and certain segments of the yield curve in negative territory, a Market Risk Framework project is under way. It involves a methodological revision of current measurement metrics through the use of historical-based scenario simulation models, which are considered to represent market best practice rather than the parametric approach currently used.

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 *(sensitivity to inflation)*: the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

Stress testing and scenarios

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthening the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations). The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effective management of market risk is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the Market Risk Policy.

The Group RAS sets out - at the Group level and at the level of individual legal entities – the main indicators representing market risk.

The operating limits set out in the Market Risk Policy are represented by:

- size limits on the trading and banking books;
- economic and risk limits in terms of VaR on the trading, banking and hedging books.

At the operational process level, Iccrea Banca has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

The first-level controls are intended to ensure the appropriate management of positions on a daily basis in order to assess their market value, the risks associated with operations and compliance with position limits, thereby enabling the accurate measurement of risks for second-level controls. These controls are conducted by front office and back office staff in their respective areas of responsibility.

If the operating limits are breached, the heads of the trading desks, each in their respective area of responsibility, participate in the management process and in activating escalation mechanisms.

In order to ensure the appropriateness and effectiveness of the organizational model and management arrangements for the risks identified, the second-level control units operate within the framework of the Group Internal Control System.

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

Third-level controls are the responsibility of Internal Audit, which consistent with the approved activity plan monitors the overall appropriateness, operation and effectiveness of the internal control system and compliance of actions with internal and external rules and procedures.

MONITORING AND REPORTING

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Bank's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the operating units, top management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR calculated using a parametric method has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method. In the last 250 trading days, the average VaR has been €0.65 million, with a minimum of €0.16 million and a maximum of €1.73 million (registered on September 9, 2016), which is below the limit for that specific category of operations, which was €2 million for the head of Finance at Iccrea Banca. At June 30, 2017, the VaR was €0.26 million.

Daily VaR on Trading Book	Notional	VaR	
	Jun. 30, 2017	Limit	Risk Profile
€\millions			
Iccrea Banca	11,512	2.00	0.26

As regards OTC derivatives business, counterparty risk is mitigated using the centralized clearing system of LCH and bilateral netting arrangements (ISDA and/or master agreements) and margining agreements (i.e. Credit Support Annexes (CSA)) for financial instruments and types of market counterparty not currently present on the LCH system. At June 30, 2017, credit exposures in respect of transactions in derivatives were covered by 187 margin agreements (CSA), of which 46 with market counterparties and 141 with mutual bank industry counterparties.

As for repos, 10 GRMAs (Global Master Repurchase Agreements) were entered into.

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

GOVERNANCE AND ORGANIZATIONAL MODEL

In order to comply both with regulatory requirements and management needs, during 2016 the Iccrea Banking Group began updating and evolving Group policy for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book.

The framework set out below is formalized within the IRRBB Policy approved on June 8, 2017 by the Board of Directors of Iccrea Banca.

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;

- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of Risk Management, monitors and manages interest rate risk at the individual and consolidated level and verifies compliance with the limits set at the strategic planning stage.

Management of interest rate risk on the banking book is performed by the **Asset & Liability Management** (ALM) function, performed by the Finance unit, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations and securitizations;
- **Money Market operations**, which are performed by the Treasury and Foreign Exchange unit. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations (with the exception of securitizations).

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to Iccrea Banca using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

IDENTIFICATION OF RISKS

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, sources of interest rate risk are identified and classified in the following risk sub-categories: reprising risk, yield curve risk, basis risk and option risk.

RISK MEASUREMENT AND ASSESSMENT

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach**: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- **Economic value approach**: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. In this perspective, the analysis is conducted using a static “gone concern” approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- **Repricing gap**: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.

- **NII sensitivity**: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- **Duration gap**: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- **EVE sensitivity**: the change in the expected value of the banking book is calculated using a "full revaluation" approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests are conducted for two of the metrics used to measure interest rate risk on the banking book:

- **EVE sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a static "gone concern" approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NII Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic "going concern" approach with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each source of such risk identified within the IRRBB and the CSRBB.

The scenarios used in the stress testing are based on both regulatory shocks and internally defined shocks.

Sample scenarios used for IRRBB stress testing include:

- **Parallel shocks:** parallel shocks to the yield curve in order to assess the impact on economic value and net interest income. based on various degrees of severity (e.g. changes of +/- 200 bps in the curve);
- **Non-parallel shocks**: non-parallel shocks to different notes of the yield curve shock in order to assess the impact on economic value and net interest income. based on various degrees of severity (steepening and flattening shocks);
- **Historical:** shocks defined internally on the basis of prudential assessments and historical analyses of observed rate variations.

RISK PREVENTION AND ATTENUATION

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to the Bank as the Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Following the revision, additional risk limits were introduced. The frequency with which they are monitored is greater and they have also been introduced for the business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

The system of limits is also accompanied by a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

The first-level controls are intended to ensure the appropriate management of positions on a daily basis in order to assess their market value, the risks associated with operations and compliance with position limits, thereby enabling the accurate measurement of risks for second-level controls. These controls are conducted by front office and back office staff in their respective areas of responsibility.

If the operating limits are breached, the heads of the trading desks, each in their respective area of responsibility, participate in the management process and in activating escalation mechanisms.

In order to ensure the appropriateness and effectiveness of the organizational model and management arrangements for the risks identified, the second-level control units operate within the framework of the Group Internal Control System.

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Third-level controls are the responsibility of Internal Audit, which consistent with the approved activity plan monitors the overall appropriateness, operation and effectiveness of the internal control system and compliance of actions with internal and external rules and procedures.

MONITORING AND REPORTING

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.[1] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the

[1] *See. ""Interest Rate Risk in the Banking Book Policy (IRRBB Policy)"";*

target/limit levels set in the RAS and the specific risk policy.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The Group's ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of the Parent Company, which manages the exposure to interest rate risk on a centralized basis. The management of mismatches in interest rate risk generated by operations conducted by the subsidiaries with customers is transferred to the Parent Company through intercompany funding/lending transactions with average maturities and characteristics that hedge the exposure to interest rate risk, consistent with the risk limits set by the Parent Company.

B. FAIR VALUE HEDGING

Positions exposed to interest rate risk are hedged in accordance with the IAS rules for fair value hedges.

More specifically, at June 30, 2017 the following positions were hedged:

- 1 fixed-rate loan issued by BCC Solutions, with a current outstanding residual debt of €18.7 million, hedged with an interest rate swap (IRS);
- 2 fixed-rate loans issued by the Bank and hedged by means of an IRS with a nominal value of €60 million;
- 2 mixed-rate bond issued by the Bank and hedged with IRSs and cap/floors with a nominal value of €378 million;
- 1 EMTN Italian government security linked to European inflation hedged with IRSs and options with a nominal value of €100 million;
- 1 treasury bond (BTP) linked to Italian inflation hedged with IRSs and options with a nominal value of €25 million;
- 2 fixed-rate treasury bonds (BTPs), hedged with IRSs and with an overnight indexed swap (OIS) with a nominal value of €160 million;
- 1 EMTN fixed-rate Italian government security, hedged with IRSs with a nominal value of €82 million;
- 1 EMTN IMI Banca step-up bond hedged with IRSs with a nominal value of €72 million;
- 1 EMTN SNAM fixed rate, hedged with IRSs with a nominal value of €1.4 million;
- 7 fixed-rate deposits hedged with an overnight indexed swap (OIS) with a nominal value of €465 million.

In addition, the Bank also undertook the following macro-hedging transactions:

- hedging of a portfolio of collateralized loans to the mutual banks with a value of €1,039 million.

Effectiveness tests were carried out using the dollar offset method for the retrospective profile and the scenario method for the prospective profile, with the exception of loans to customers covered by macrohedging, for which the tests adopted the volatility risk reduction method.

C. CASH FLOW HEDGING

The Bank conducted cash flow hedging for the following transactions:

- 1 Italian government bond (BTP) linked to European inflation using asset swaps with a nominal value of €28 million;

- 1 Italian government bond (BTP) linked to Italian inflation hedged using IRSs with a nominal value of €100 million;
- 4 dollar-denominated bonds hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €74 million.

Quantitative disclosures

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

SCENARIO	IMPACT ON ECONOMIC VALUE		IMPACT ON NET INTEREST INCOME AT 12 MONTHS	
	- 100 bp	+100 bp	- 100 bp	+100 bp
Iccrea Banking Group	-48.1	+47.4	-10.6	+11.5

2.3 EXCHANGE RATE RISK

Qualitative disclosures

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

B. Hedging exchange rate risk

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduate by the importance of the currencies.

SECTION 3 – LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk for the Iccrea Banking Group is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (**funding liquidity risk**);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (**market liquidity risk**).

The framework for managing liquidity and governing the liquidity risk of the Iccrea Banking Group adopts a model involving centralization of activities with Iccrea Banca.

The framework is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

Iccrea Banca is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis by Iccrea Banca, which performs the following functions:
  - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
  - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
  - funding the securities portfolio at the Group level;
  - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
  - managing open market operations with the ECB.
- the management of structural liquidity is centralized with Iccrea Banca, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
  - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..);
  - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by Iccrea Banca in its capacity as the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms. In addition, all Group companies with excess liquidity deposit those funds with Iccrea Banca.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – which is divided into two complementary levels:
  - *intraday and very short-term liquidity:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - *short-term liquidity*: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- **structural liquidity** – identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls..

Measuring liquidity risk consists in identifying and quantifying the exposure to such risk over the observation period in a complete, accurate and timely manner.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions..

The maturity ladder, which is the main tool for measuring liquidity risk, makes it possible to monitor the effective ability of the counterbalancing capacity to cover any liquidity shortfalls caused by an imbalance between certain and uncertain expected cash inflows and outflows as assigned on a prudential basis to the different maturity banks that make up the ladder.

On the basis of the scope of analysis and the time horizon, two maturity curves are developed: operational and structural.

The operational maturity ladder is used to monitor the liquidity position of Treasury/Finance operations, excluding items regarding commercial operations, over a 12-month time horizon.

Inflows from assets are assigned to time bands on the basis of their contractual maturity, while specific behavioral assumptions are used in determining the run-off of liabilities.

The system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual level at both short and medium/long term, considering items generated by Treasury/Finance operations and those associated with commercial operations. Cash inflows and outflows are assigned to the various time bands of the ladder on the basis of the purpose of the analysis, using two separate approaches.

The first approach provides for the assignment of cash flows on the basis of the contractual maturities of the items involved. This is used to produce the regulatory reporting provided for in the Short Term Exercise) – template Maturity Ladder C-66, consistent with the instructions issued by the EBA.

The second approach is based on the adoption of behavioral assumptions for demand items and margins on the credit lines granted. To determine drawings on funding held on the settlement account, the assumptions are based on a behavioral model for demand funding.

The structural maturity ladder used by the Group in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;

– support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model adopted by the Group and the subsidiaries. Liquidity risk is monitored by the Risk Management unit of Iccrea Banca. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of Iccrea Banca, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

Exceeding the indicator limits triggers, depending on the type of indicator, the activation of specific, codified escalation processes associated with circumscribed areas of intervention connected with the seriousness of the breach (overshoot/violation of the indicator). The escalation processes are designed to operate promptly and efficiently and they clearly define the roles and responsibilities of the various actors involved and the timing of execution of the process. The provide for direct reporting lines to the heads of the risk management departments and other control units, as well as and reporting lines to the committees (the Board’s Risk, Finance and Recovery Committees) and corporate bodies.

STRESS TEST FRAMEWORK

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test has been defined framework on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

– to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
– to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to enable the discharge of obligations expected over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

– **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy;
– **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
– **stress scenarios generated by a combination of specific and systemic events,** i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, shocks generated by the main risk variables have been incorporated. They were identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:

– a financial market shock that involves a significant change in the level of interest rates;
– a systemic shock that involves a drastic reduction in access to the money market;
– a liquidity squeeze on the interbank market;
– a recession;
– the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

– outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
– the occurrence of reputational events that make it difficult to renew funding sources;
– adverse movements in the prices of asset to which the bank is most exposed;
– significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

SECTION 4 – OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Within the framework of the initiatives defined at the Group level in the Risk Management area, the Bank has implemented an integrated system for identifying and analyzing operational risks that enables the evaluation of each business area's exposure to such risks.

The approach adopted also makes it possible to pursue the following specific objectives:

- providing risk owners with greater awareness of the risks associated with their operations;
- assessing the Bank's positioning with respect to operational risk factors in corporate processes;
- providing top management with an overall view of the Bank's operational issues by period and area of observation;
- providing information to improve the internal control system;
- optimizing operational risk mitigation actions through a process that identifies risks, assesses them economically and identifies the internal problems underlying those risks, thereby enabling cost/benefit analysis of the initiatives to be taken in response.

The operational risk analysis system created through these initiatives is composed of:

- an overall framework for managing operational risks, composed of classification models, analytical methods, management processes and support tools;
- a prospective self-assessment process of the exposure to operational risks. The results of the assessments are processed with a model that translates the estimates of exposure to operational risks into economic capital values;
- a Loss Data Collection process.

The operational risk management framework seeks to implement an evolutionary revision from an "event driven" approach to a "risk factor driven" framework. This approach seeks to direct risk analysis primarily towards the identification of vulnerabilities that can be used more immediately in the management of risks and the identification of mitigation interventions.

Consistent with the "Risk Management Process", the framework is structured into the following phases:

1. **Identification of risks (knowledge)**: a set of activities, processes, methods and tools to identify operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).

2. **Evaluation/measurement of identified risks (awareness):** processes, methods and tools for assessing/measuring Group operational risks.

3. **Risk prevention and mitigation (strategy)**: activities, processes, methods and tools for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.

4. **Monitoring and reporting (tracking and control)**: activities, processes, methods and tools to monitor the Group's risk profile **and** deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".

5. **Risk management and mitigation (reaction and proactivity)**: activities, processes, methods and tools to support the management of developments in operational risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments

(operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk, in line with the relevant regulations.

More specifically, operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (board bodies, senior management, operating units).

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is "gross income".

In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €36,177 thousand.

Part F

Information on capital

PART F – INFORMATION ON CAPITAL

SECTION 1 - COMPANY CAPITAL

A. Qualitative disclosures

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business.

Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. Quantitative disclosures

B.1 COMPANY CAPITAL: COMPOSITION

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
1. Share capital	**1,151,045**	**1,151,045**
2. Share premium reserve	**4,747**	**4,747**
3. Reserves	**401,194**	**391,786**
- earnings	399,193	389,784
a) legal	50,309	48,201
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	348,678	341,378
- other	2,002	2,002
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**(30,068)**	**(30,068)**
6. Valuation reserves:	**61,367**	**67,249**
- Financial assets available for sale	13,027	19,562
- Property and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(1,971)	(2,405)
- Foreign exchange differences		
- Non-current assets held for sale		
- Actuarial gains (losses) on defined benefit plans	(1,751)	(1,970)
- Share of valuation reserves of equity investments accounted for using equity method		
- Special revaluation laws	52,062	52,062
7. Net profit (loss) for the period	**1,078**	**21,084**
TOTAL	**1,589,364**	**1,605,843**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	TOTAL AT 30/06/2017		TOTAL AT 31/12/2016	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	4,076	(3,266)	8,040	(3,720)
2. Equity securities	11,634	(44)	14,627	-
3. Units in collective investment undertakings	670	(43)	667	(51)
4. Loans	-	-	-	-
TOTAL	**16,381**	**(3,354)**	**23,334**	**(3,771)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

Own funds, risk-weighted assets and solvency ratios at June 30, 2017 have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision ("Basel 3") within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.
The provisions concerning own funds call for the new regulatory framework to be introduced gradually, over a transitional period that will generally end in 2017, during which certain components that, once completely implemented will be fully calculated in or deductible from common equity, at present only partially impact Common Equity Tier 1 capital. The remaining percentage is normally calculated in/deducted from Additional Tier 1 (AT1) capital and Tier 2 (T2) capital or is included among risk-weighted assets. There are also transitional provisions regarding subordinated instruments that do not meet the requirements of the new regulations that aim to gradually remove instruments that are no longer eligible from own funds (over 8 years). The prudential ratios therefore take account of the adjustments required by the transitional provisions for 2014.

At June 30, 2017 own funds amounted to €1,687,456 thousand, as against a total capital requirement of €311,215 thousand, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

2.1 OWN FUNDS

A. Qualitative disclosures

1. COMMON EQUITY TIER 1 (CET1) CAPITAL

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,556,622 thousand. Applying prudential filters, represented by the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €2,775 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,585,510 thousand. The elements to be deducted consist of intangible assets and deferred tax assets based on future profitability, net of deferred tax liabilities, and amount to €33,355 thousand, while the positive impact of the transitional system on CET 1 comes to €3,467 thousand and is represented by the negative actuarial reserves (IAS 19) and the exclusion of unrealized profits on AFS securities. Therefore, CET1 amounts to €1,555,622 thousand.

2. ADDITIONAL TIER 1 (AT1) CAPITAL

There are no instruments that are included under Additional Tier 1 (AT1) capital in these financial statements).

3. TIER 2 (T2) CAPITAL

Tier 2 (T2) capital, before the application of the filters provided for under the transitional system, amounts to €130,562 thousand and is composed of three subordinated bonds issued by the Bank, net of the redeemable portion. As a result of the transitional provisions, there is a positive filter of unrealized gains on AFS securities amounting to €1,272 thousand, bringing the total Tier 2 capital to €131,834 thousand.

The following are the characteristics of the subordinated lower Tier II bonds:

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €106,600 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;

- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11,737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest rate 6M Euribor + 350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption.

B. Quantitative disclosures

	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
A. Common Equity Tier 1 (CET1) capital before the application of the prudential filters	**1,588,285**	**1,584,857**
of which CET1 instruments subject to the transitional provisions	-	-
B. CET1 prudential filters (+/-)	**(2,775)**	**(2,774)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**1,585,510**	**1,582,083**
D. Elements to be deducted from CET1	**(33,355)**	**(30,963)**
E. Transitional system - Impact on CET1 (+/-)	**3,467**	**3,470**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,555,622**	**1,554,590**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system	-	-
of which AT1 instruments subject to the transitional provisions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional system - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	-	-
M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system	**130,562**	**130,562**
of which Tier 2 instruments subject to the transitional provisions	-	-
N. Elements to be deducted from T2	-	-
O. Transitional system - Impact on T2 (+/-)	**1,272**	**3,045**
P. Total Tier 2 (T2) capital (M - N +/- O)	**131,834**	**133,607**
Q. Total own funds (F + L + P)	**1,687,456**	**1,688,197**

2.2 CAPITAL ADEQUACY

A. Qualitative disclosures

The capital ratios at June 30, 2017, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

B. Quantitative disclosures

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/REQUIREMENTS	
	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016	TOTAL AT 30/06/2017	TOTAL AT 31/12/2016
A. EXPOSURES				
A.1 CREDIT AND COUNTERPARTY RISK	**64,614,633**	**77,280,843**	**3,117,717**	**3,025,413**
1. Standardized approach	64,606,449	77,274,351	3,109,533	3,018,921
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	8,184	6,492	8,184	6,492
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**249,417**	**242,033**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING			**5,248**	**6,608**
B.3 REGULATORY RISK				
B.4 MARKET RISKS			**20,373**	**20,364**
1. Standardized method			20,373	20,364
2. Internal models				
3. Concentration risk				
B.5 OPERATIONAL RISK			**36,177**	**36,177**
1. Basic indicator approach			36,177	36,177
2. Standardized approach				
3. Advanced measurement approach				
B.6 OTHER COMPONENTS				
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**311,215**	**305,182**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 RISK-WEIGHTED ASSETS			**3,890,192**	**3,814,776**
C.2 CET1 CAPITAL RATIO			**39.99%**	**40.75%**
C.3 TIER1 CAPITAL RATIO			**39.99%**	**40.75%**
C.4 TOTAL CAPITAL RATIO			**43.38%**	**44.25%**

Part G
Business combinations

PART G – BUSINESS COMBINATIONS

The Bank did not carry out any business combinations during the period.

Part H

Transactions with related parties

PART H – TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following tables report the information required under IAS 24 concerning the remuneration of directors and 2 top managers, as well as the members of the Board of Auditors.

	TOTAL AT 30/06/2017
Compensation and other remuneration	1,141
Post-employment benefits	13

	TOTAL AT 30/06/2017
Compensation of members of Board of Auditors	154

LOANS AND GUARANTEES GRANTED:

	TOTAL AT 30/06/2017
- Members of Board of Directors	443
- Members of Board of Auditors	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

THE FOLLOWING TABLES REPORT THE BALANCE SHEET AND INCOME STATEMENT ITEMS INVOLVED IN INTERCOMPANY TRANSACTIONS:

ASSETS	A20_FINANCIAL ASSETS HELD FOR TRADING	A30_FINANCIAL ASSETS AT FAIR VALUE	A60_DUE FROM BANKS	A70_LOANS TO CUSTOMERS	A150_ OTHER ASSETS
BANCA SVILUPPO	(55)		(484,773)		(992)
BCC CREDITOCONSUMO				(759,064)	(2,546)
BCC FACTORING				(429,730)	(409)
BCC GESTIONE CREDITI				(562)	(858)
BCC LEASE				(316,078)	(44)
BCC RETAIL					(10)
BCC RISPARMIO E PREVIDENZA					(4,005)
BCC SERVIZI INFORMATICI					(1,440)
BCC SOLUTIONS				(23,515)	(2,696)
ICCREA BANCAIMPRESA	(48,385)		(8,391,786)		(19,576)
BCC BENI IMMOBILI				(8,429)	(186)
VENTIS				(2,006)	(9)
TOTAL	**(48,440)**	**0**	**(8,876,559)**	**(1,539,384)**	**(32,771)**

LIABILITIES	L10_DUE TO BANKS	L20_DUE TO CUSTOMERS	L30_ SECURITIES ISSUED	L40_FINANCIAL LIABILITIES HELD FOR TRADING	L50_FINANCIAL LIABILITIES AT FAIR VALUE	L100_ OTHER LIABILITIES
BANCA SVILUPPO	366,542		439,174	917		575
BCC CREDITOCONSUMO						70
BCC FACTORING		35				1,938
BCC GESTIONE CREDITI		3,429				162
BCC LEASE						983
BCC RETAIL		14				20
BCC RISPARMIO E PREVIDENZA		11,124				366
BCC SERVIZI INFORMATICI		676				4,576
BCC SOLUTIONS		37				640
ICCREA BANCAIMPRESA	122,521			4,167		31,993
BCC BENI IMMOBILI						
VENTIS						1
TOTAL	**489,063**	**15,315**	**439,174**	**5,084**	**-**	**41,324**

INCOME STATEMENT	I10_INTEREST AND SIMILAR INCOME	I20_INTEREST AND SIMILAR EXPENSE	I40_ FEE AND COMMISSION INCOME	I50_ FEE AND COMMISSION EXPENSE	I80_ NET GAIN (LOSS) ON TRADING ACTIVITIES	I150_ ADMINISTRATIVE EXPENSES	I190_ OTHER OPERATING EXPENSES/ INCOME
BANCA SVILUPPO	511	(4,329)	1,041	(1,869)	7	260	288
BCC CREDITOCONSUMO	7,419		66			119	108
BCC FACTORING	233		9			16	61
BCC GESTIONE CREDITI	8		2			(47)	81
BCC LEASE	1,787		69			7	73
BCC RETAIL	1						43
BCC RISPARMIO E PREVIDENZA						328	479
BCC SERVIZI INFORMATICI			1			(5,874)	249
BCC SOLUTIONS	450		1			(10,937)	255
ICCREA BANCAIMPRESA	28,386	(3,159)	170		(3,767)	(1,379)	2,734
BCC BENI IMMOBILI	60						5
VENTIS	40		8			(1)	5
TOTAL	**38,895**	**(7,488)**	**1,367**	**(1,869)**	**(3,760)**	**(17,508)**	**4,381**

The following table reports the additional information required under IAS 24.

TRANSACTIONS WITH RELATED PARTIES: BALANCE SHEET

	GROUP COMPANIES	ASSOCIATES AND OTHER RELATED PARTIES	TOP MANAGEMENT	EMPLOYEE POST-EMPLOYMENT BENEFITS
Financial assets held for trading	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets available for sale	-	-	-	-
Due from banks	-	-	-	-
Loans to customers	-	(930)	(323)	-
Equity investments	-	-	-	-
Other assets	-	-	-	-
TOTAL ASSETS	**-**	**(930)**	**(323)**	**-**
Due to banks	-	-	-	-
Due to customers	690	5,689	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-
Securities issued	-	-	-	-
Other liabilities	-	-	-	-
TOTAL LIABILITIES	**690**	**5,689**	**-**	**-**
GUARANTEES ISSUED AND COMMITMENTS	**-**	**1,000**	**-**	**-**

TRANSACTIONS WITH RELATED PARTIES: INCOME STATEMENT

	GROUP COMPANIES	ASSOCIATES AND OTHER RELATED PARTIES	TOP MANAGEMENT	EMPLOYEE POST-EMPLOYMENT BENEFITS
Interest and similar income	40	1	-	-
Interest and similar expense	-	(2)	-	-
Fee and commission income	1	28	-	-
Fee and commission expense	-	(155)	(1,295)	-
Net gain (loss) on trading activities	-	-	-	-
Administrative expenses:	-	-	-	-
Other operating expenses/income	-	-	-	-

Part I

Share-based payments

PART I – SHARE-BASED PAYMENTS

As at the reporting date, the Bank had no payment agreements based on its own equity instruments in place.

PART L

Operating segments

PART L – OPERATING SEGMENTS

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions. The Bank's main income statement and balance sheet aggregates are reported below.

Primary reporting basis

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured.

These segments are:

- finance and lending;
- payment systems.

in addition to central governance and support functions, as well as the institutional services functions and those of the ICT area grouped under the "Corporate Center".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Proprietary Finance and Trading, Treasury and Foreign Exchange, Institutional Sales, Securitizations and Institutional and Retail Lending, while the payment systems segment comprises Collections and Payments and E-Bank. For a discussion of the individual segments, please see the section on the Bank's activities in the report on operations.

Income statement

The following reports the main aggregates of the income statement by business segment. The figures are presented using the reclassified income statement format given in the report on operations.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(thousands of euros)	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16
Net interest income	14,143	30,664	(361)	(213)	(104)	140	13,678	30,591
Net service income	25,395	30,771	51,254	46,643	45,325	43,033	121,974	120,447
Total revenues	**39,538**	**61,435**	**50,893**	**46,430**	**45,221**	**43,173**	**135,652**	**151,038**
Administrative expenses	20,867	17,832	44,970	36,918	60,672	41,544	126,508	96,294
Net adjustments of property and equipment and intangible assets	1,197	707	1,358	1,341	1,240	2,081	3,795	4,129
Other operating expense/income	(204)	196	(6,532)	5,596	(6,280)	5,214	(13,016)	11,006
Total operating expenses	**21,860**	**18,735**	**39,795**	**43,855**	**55,631**	**48,839**	**117,287**	**111,429**
Gross operating income	**17,678**	**42,700**	**11,098**	**2,575**	**(10,410)**	**(5,666)**	**18,365**	**39,609**

As regards the procedures for the determination of performance:

- net interest income is calculated by segment as the difference between actual interest and imputed interest on the treasury pool;
- net service income is calculated by way of direct allocation of income and expense components;
- operating expenses are allocated using a "full costing" approach that allocates all operating costs.

Net interest income at June 30, 2017 was equal to €13.7 million, down 55.4% on June 30, 2016 (€30.6 million). Excluding the non-recurring income of €2.9 million from interest on TLTRO funding, the decline was equal to €19.8 million, reflecting the following factors:
a decrease in the profitability of the investment book and liquidity (€6.3 million, compared with €22.3 million). The contraction was due to a reduction in volumes on the investment platform (€2.8 billion, compared with. 5.1 billion) and lower yields (0.21%, compared with 0.64%);
an increase in profitability on intercompany transactions in securities and longer-term loans (+€6.7 million) due to the increase in the average size of transactions, albeit at lower rates (€5.5 billion at 1.25% compared with €4.7 billion at 1.5% in the first half of 2016), the effecting of funding at lower average rates using structural funding supplemented by deposits (average rate 1.80% at June 2017 compared with 2.4% at June 2016), with the remainder accounted for by treasury funding at eonia (negative rates in 2017 were about 8 basis points greater);
a contraction in net interest income on institutional lending owing to the gradual run-off of loans and mutual bank bonds;
With regard to the cost of funding, compared with June 2016, the following factors were involved:
fixed-term deposits amounted to €2.2 billion with an average rate of 0.53% (€3 billion at 0.58% in 2016)
structural FPT funding of €5.9 billion with an average rate of 1.8% (€4.8 billion at 2.4% in 2016)
daily settlement account of €5.2 billion interest free (€4 billion at 0.04% in 2016)
secured treasury funding of €26.7 billion with an average rate of -0.23% (€31 billion at -0.16% in 2016), which includes an annualized average of €9.2 billion from the T-LTRO at 0% (€6.6 million at -0.11% in 2016).

Net service income, which came to €122 million in at June 30, 2017, includes €63.3 million from net fees and commissions and €33.7 million from trading operations and dividends. The increase in net fees and commissions from €59.9 million in the first half of 2016 to €63.3 million in the first half of 2017 is mainly attributable to the expansion of the electronic money segment, both in terms of the stock of active cards and in volumes handled, and to the collection and payments services segment, reflecting the change in prices for bankers' drafts and an increase in the volume of SEPA products handled for others.

The decrease in profit and loss on financial transactions from €93 million in the first half of 2016 to €58.7 million in the first half of 2017, excluding the non-recurring components from the sale of the investments in Visa and Cattolica (in 2017 equal to €9.6 million and in 2016 equal to €43 million), was equal to €1.4 million. The decline mainly reflected:
the contraction in revenue from the financial portfolio (-€4.9 million) and securities measured under the FVO (-€1 million). The contraction was partly offset by an increase in income from trading (+€1.2 million on the first half of 2016, although the result was impacted by the Brexit effect);
the increase in dividends (+€2.6 million).

Administrative expenses, which totaled €126.5 million at June 30, 2017, include personnel expenses of €38.8 million, compared with €41 million in the first half of 2016, and € 87.6 million in other administrative expenses, compared with €75.6 million at June 30, 2016.
Total net adjustments of property and equipment and intangible assets amounted to about €3.8 million at June 30, 2017, down by about €0.5 million on June 2016 (€4.3 million).
Other operating income included in operating expenses was equal to €13.1 million at June 30, 2017, in line with June 2016.
As a result of these developments, gross operating income in the first half of 2017 amounted to about €18.4 million, a decrease of about €57.6 million on the previous year.

Balance sheet

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. The amounts are end-period figures. Liabilities include share capital, reserves and net profit for the period.

The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(MILLIONS OF EUROS)	JUN-17	DEC-16	JUN-17	DEC-16	JUN-17	DEC-16	JUN-17	DEC-16
Cash and loans to customers	3,152	4,182	-	-	89	98	3,241	4,280
Due from banks	30,266	30,999	-	-	-	-	30,266	30,999
Other financial assets and equity investments	8,036	7,221	28	26	1,905	1,870	9,969	9,117
TOTAL INVESTMENTS AND LENDING	**42,402**	**42,402**	**26**	**26**	**1,968**	**1,968**	**43,476**	**44,396**
Due to customers	13,479	23,798	523	630	11	16	14,013	24,444
Due to banks	21,712	13,265	-	-	-	-	21,712	13,265
Other financial liabilities	5,784	4,787	3	-	1,964	1,900	7,751	6,687
TOTAL FUNDING	**40,975**	**41,850**	**526**	**630**	**1,975**	**1,916**	**43,476**	**44,396**

Secondary reporting basis

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.

Report of the audit firm

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Building a better working world

Review report on the interim condensed financial statements

(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim condensed financial statements, comprising the balance sheet as of June 30, 2017, the income statement, the statement of comprehensive income, the statement of shareholders' equity and the statement of cash flows for the six-month period then ended and the related explanatory notes of Iccrea Banca S.p.A. The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the interim condensed financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements of Iccrea Banca S.p.A. as of June 30, 2017 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, September 21, 2017

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers

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