The right direction.

Interim Financial Statements

June 30, 2014

Iccrea Banca

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at June 30, 2014
Iccrea Banca S.p.A.

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Registered office: Via Lucrezia Romana 41/47 – 00178 Rome
Company Register no. and Tax ID 04774801007 - R.E.A. of Rome No. 801787
Share capital €216,913,200 entirely paid in
Member of the Iccrea Banking Group
Entered in the Register of Banking Groups at no. 20016
Subject to management and coordination by Iccrea Holding S.p.A.

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Interim Report on Operations

as June 30, 2014

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Report on Operations

About us

Iccrea Banca is the central credit institution for the mutual banking system. Our mission, as enshrined in our bylaws, is to make the work of mutual banks more complete, intensive and effective by supporting and strengthening their efforts.

Iccrea Holding, the parent company of the Iccrea Banking Group, holds 99.998% of Iccrea Banca.

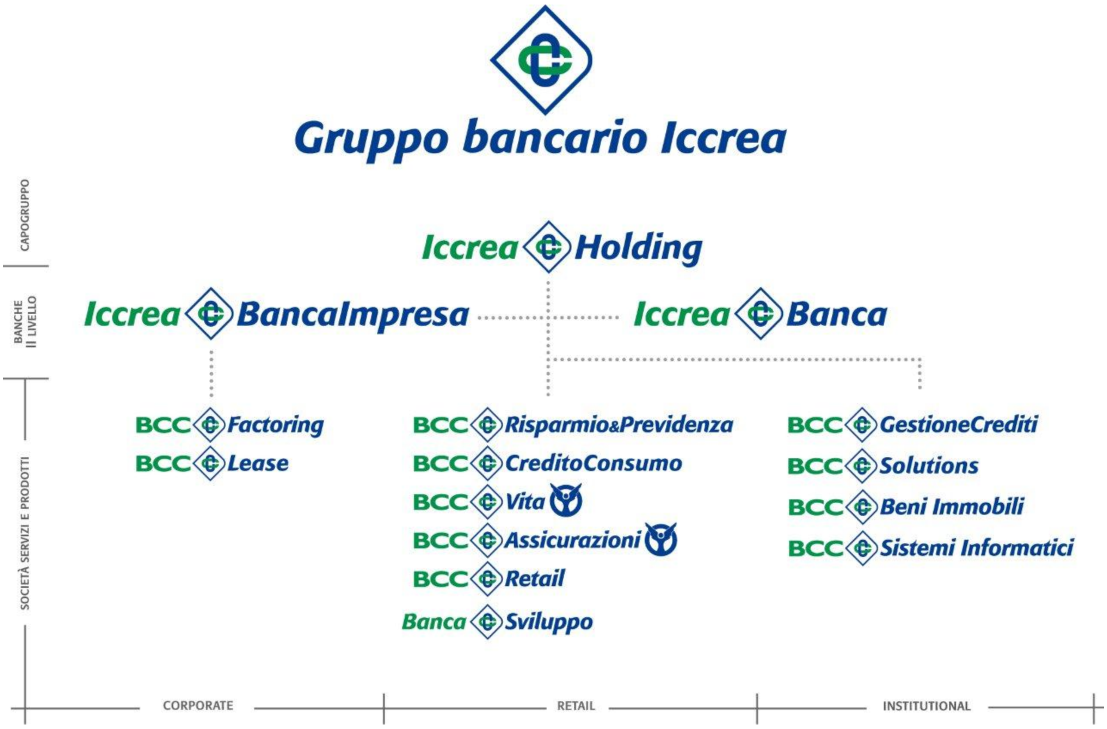
Iccrea Banca is a solid organization, providing services in the areas of finance, electronic money and payment systems, while also providing credit services to support the needs of the mutual banking system.

Iccrea Banca manages the technology infrastructure to support, monitor and provide the services supporting the business processes of the Iccrea Banking Group.

Iccrea Banca is the finance hub for the Iccrea Banking Group, as well as the direct acquirer and issuer for the Ottomila circuit, which comprises the full line of Italian and international credit, debit and pre-paid payment cards.

The Iccrea Banking Group

The Iccrea Banking Group is a group of companies that share a primary objective: to support the operations of mutual banks and meet the needs of their local customers, both corporate (small and medium-sized enterprises) and retail (households). The services and products that the Group offers through its two banks (Iccrea Banca and Iccrea BancaImpresa) and the other subsidiaries of the parent company, Iccrea Holding, as well as major partnerships with outside providers, range from insurance (both life and non-life) to finance and investment, and include business-strategy consulting and training. Thus, the companies of the Iccrea Banking Group do not work directly with the market, but rather offer an integrated system of solutions for all mutual banks in their local markets, enabling them to be local actors in economic and social development.



1. MAIN RESULTS OF THE BANK

Reclassified balance sheet (thousands of euros)	Assets	June 2014	Dec. 2013	% change
Financial assets held for trading	20. Financial assets held for trading	444,145	440,380	0.9%
Financial assets designated as at fair value through profit or loss	30. Financial assets designated as at fair value through profit or loss	317,060	321,150	-1.3%
Financial assets available for sale	40. Financial assets available for sale	4,186,315	3,449,428	21.4%
Financial assets held to maturity	50. Financial assets held to maturity	3,584,098	3,755,290	-4.6%
Due from banks	60. Due from banks	35,624,910	32,827,713	8.5%
Loans to customers	70. Loans to customers	2,140,800	1,768,381	21.1%
Value adjustments of financial assets	90. Value adjustments of financial assets	222	-53	-522.8%
Equity investments	100. Equity investments	263,610	63,564	314.7%
Property and equipment and intangible assets		12,965	15,558	-16.7%
	110. Property and equipment	7,077	8,320	-14.9%
	120. Intangible assets	5,888	7,238	-18.7%
Tax assets	130. Tax assets	7,580	17,014	-55.4%
Other assets		575,843	335,892	71.4%
	10. Cash and cash equivalents	76,444	82,637	-7.5%
	80. Hedging derivatives	5,471	5,562	-1.6%
	140. Non-current assets and disposal groups held for sale	291,488	30,313	861.6%
	150. Other assets	202,441	217,381	-6.9%
	Total assets	**47,157,548**	**42,994,317**	**9.7%**

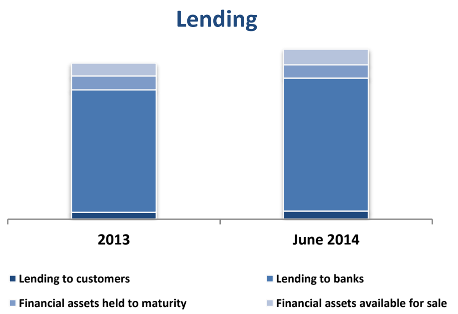
Reclassified Balance Sheet (thousands of euros)	Liabilities and shareholders' equity	June 2014	Dec. 2013	% change
Due to banks	10. Due to banks	24,117,673	21,391,952	12.7%
Due to customers	20. Due to customers	15,797,377	15,259,974	3.5%
Securities issued	30. Securities issued	4,512,229	4,287,398	5.2%
Financial liabilities held for trading	40. Financial liabilities held for trading	415,175	391,236	6.1%
Financial liabilities designated as at fair value through profit or loss	50. Financial liabilities designated as at fair value through profit or loss	751,239	763,418	-1.6%
Other liabilities		1,000,909	349,737	186.2%
	80. Tax liabilities	32,785	34,462	-4.9%
	60. Hedging derivatives	89,363	75,167	18.9%
	90. Liabilities associated with assets held for sale	292,915	32,905	790.2%
	100. Other liabilities	585,846	207,203	182.7%
Provisions		20,826	19,927	4.5%
	110. Employee termination benefits	14,113	13,348	5.7%
	120. Provisions for risks and charges	6,714	6,579	2.1%
Reserves		301,962	273,733	10.3%
	130. Valuation reserves	115,037	92,042	25.0%
	160. Reserves	186,925	181,691	2.9%
Share capital	180. Share capital	216,913	216,913	0.0%
Net profit/(loss) for the period	220. Net profit/(loss) for the period (+/-)	23,244	40,028	-41.9%
	Total liabilities and shareholders' equity	**47,157,548**	**42,994,317**	**9.7%**

Reclassified income statement (thousands of euros)				
	June 2014	June 2013	% change	Items pursuant to format in Bank of Italy Circular 262 of 22/12/2005
Net interest income	**33,805**	**37,158**	**-9.0%**	**10-20**
Net income (loss) on financial transactions	23,266	30,035	-22.5%	80-90-100-110
Dividends	517	143	261.3%	70
Net fee and commission income	**60,112**	**58,166**	**3.3%**	**40-50**
Other operating expenses/income	10,012	9,933	0.8%	190
Total revenues	**127,712**	**135,435**	**-5.7%**	
Personnel expenses	-31,680	-30,975	2.3%	150a
Other administrative expenses	-56,125	-49,133	14.2%	150b
Net adjustments of property and equipment and intangible assets	-3,333	-3,342	-0.3%	170-180
Total operating expenses	**-91,138**	**-83,450**	**9.2%**	
Gross operating profit	**36,574**	**51,985**	**-29.6%**	
Net provisions for risks and charges	-271	169	-260.1%	160
Net losses/recoveries for impairment	983	357	175.4%	130 a)
Writedowns of goodwill				230
Total provisions and adjustments	**713**	**526**	**35.5%**	
Net operating profit	**37,287**	**52,511**	**-29.0%**	
Profit/(loss) before tax	**37,287**	**52,511**	**-29.0%**	
Income tax expense from continuing operations	-14,243	-19,888	-28.4%	260
Profit/(loss) after tax from non-current assets held for sale	23,044	32,623	-29.4%	280
Profit/(loss) after tax from disposal groups held for sale	200	-		280
Net profit/(loss) for the period	**23,244**	**32,623**	**-28.7%**	

Performance indicators

Lending

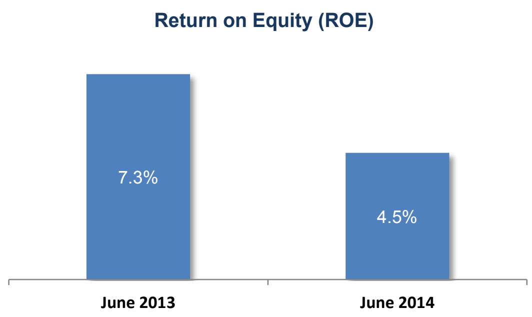
In the first half of 2014, lending to banks and to customers totaled 78.2% and 4.7% of total lending, respectively, an aggregate that is made up of loans to customers, loans to banks, financial assets held to maturity, and financial assets available for sale, equal to 8.9% of the total.



Return on Equity (ROE)

Return on equity for first half of 2014 came to 4.5%, down from 7.3% for the first half of 2013 due, essentially, to the reduction in the profit for the period.

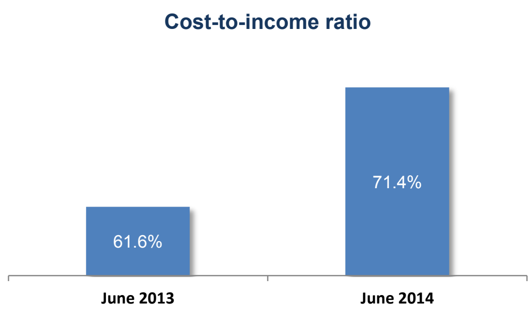
ROE is calculated as the ratio of net profit for the year to equity at the end of the period.



Cost-to-income ratio

The cost-to-income ratio for the first half of 2014 came to 71.4%, an increase on the ratio for the same period of 2013 due to an increase in costs and a decline in revenues.

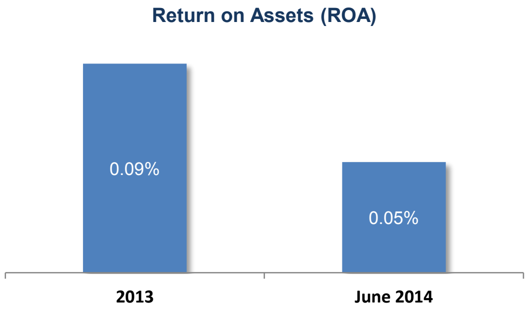
This ratio is calculated as the ratio of operating costs (administrative expenses and depreciation and amortization) to total revenues and is an indicator of productivity expressed as the percentage of revenues absorbed by operating costs.

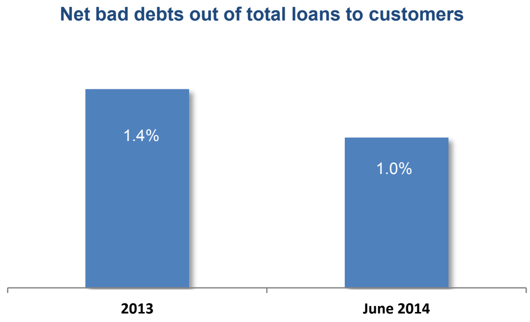


Return on Assets (ROA)

Return on assets for the first half of 2014 came to 0.05%, down from December 2013 due to an increase in assets and a decrease in net profit.

ROA is calculated as the ratio of net profit to total assets and is an indicator of the return on total capital employed.

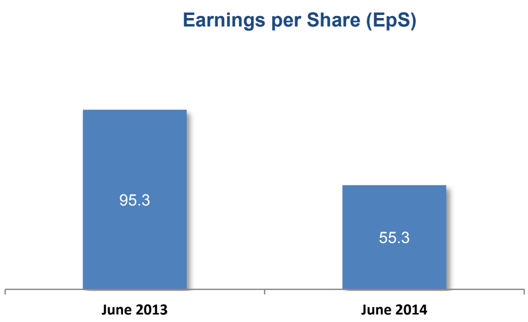




Earnings per Share (EPS)

Earnings per share for the first half of 2014 came to 55.3 eurocents, compared with 95.3 eurocents for June 2013, and reflects the decline in net profit.

EPS is calculated as net profit divided by the number of shares representing share capital.



Ratio of net bad debts to total loans to customers

The ratio of net bad debts to total loans to customers for June 2014 came to 1%, compared with 1.4% for the same period of 2013.

This indicator shows the level of risk of the loan portfolio.

2. OPERATING CONDITIONS

The macroeconomic environment and the international banking system

After decelerating at the start of the year, global economic activity picked up again, albeit growing at a modest pace and unevenly across the main regions. Trade recovered after the decline in the first quarter, but the recovery is still uncertain due to current geopolitical tensions.

After contracting in the first quarter, economic activity in the United States began to expand again in the second, thanks in part to the recovery in exports in April and May. The rapid pace of growth in employment led, in June, to a decline in the unemployment to 6.1%. In Asia, despite strong growth in the first quarter, the GDP of Japan fell, in contrast with China, where the GDP grew by 7.5%, buoyed by measures to boost investment in infrastructure and the real estate sector and by stronger demand from the advanced economies. In Russia, geopolitical tensions with Ukraine led to a decline in confidence and an outflow of capital, leading to a marked slowdown of GDP growth that continued into the second quarter.

After the contraction in the first three months of 2014, world trade appears to be on the verge of a modest recovery as a result of the increase in foreign orders and output in the leading economies. The price of oil reflected the political instability in the oil-producing countries, while the prices of non-energy commodities fell once again in the second quarter, mainly owing to a fall in the prices of non-agricultural goods.

Inflation rose moderately in the advanced economies. In May, U.S. inflation rose to 2.1%, in Japan to 3.7% (as a result of the increase in indirect taxes), and in the United Kingdom to 1.9%. Among the emerging economies, inflation was moderate in China, but remained high in India and in Brazil.

The Federal Reserve pursued its tapering policy and continued to reduce its purchases of mortgage-backed securities and longer-term Treasury securities. The Bank of England's Monetary Policy Committee left its benchmark rate unchanged at 0.5% and did not vary the amount of the financial assets acquired under its Asset Purchase Program (£375 billion). The Bank of Japan has maintained its program to expand the monetary base, mainly through the purchase of long-term government bonds. The central bank of China left its benchmark interest rates unchanged, while introducing some limited monetary easing measures and urged commercial banks to ease their lending standards for the granting of mortgages. The Reserve Bank of India lowered its statutory liquidity ratio by 50 basis points to 22.5%. The Central Bank of Brazil instead increased its reference rate (SELIC) by 25 basis points, bringing it to 11%, the ninth consecutive increase in one year for a total of 375 basis points.

The euro area

The recovery in the euro area, though modest and uneven, continued and was accompanied by very low inflation and a contraction in lending to firms. In order to stimulate the flow of credit to the economy, in June the Governing Council of the ECB made monetary policy even more accommodative: with a combination of decisions on official interest rates and new unconventional measures.

Euro-area GDP in the second quarter of 2014 was stagnant, compared with modest growth that differed from one country to another in the first quarter.

In April-May, euro-area industrial production was nearly unchanged compared with the previous period. Although the composite euro-area PMI index remained above the threshold consistent with an increase in economic activity, it declined further in June. National PMI indices continued to indicate a favorable, albeit worsening, outlook for Germany, in both industry and services; in France they dropped below the level consistent with stable economic activity. The Eurosystem staff projections point to GDP growth of 1% in 2014 and 1.7% in 2015.

Inflation came to 0.5%, falling to a historically low level when the most volatile components are excluded, reflecting the weakness of underutilized productive capacity. In May, one third of the items showed a decrease in price. Producer prices fell by 1%, owing to the fall in the prices of energy products and intermediate goods, which are influenced by the fall in the euro prices of raw materials. There was a slowdown in the increase in unit labor costs as a result of the deceleration in hourly earnings.

Monetary growth slowed as a result of the weakness of economic activity and the shifts in portfolios towards higher-yielding assets than money. During the same period, lending to firms fell (except in France) and lending to households stagnated.

In its meeting at the beginning of June, the Governing Council of the ECB adopted measures to make monetary policy even more accommodative and support the flow of credit to the real economy. The interest rate for main refinancing operations was lowered to 0.15% and that for the deposit facility was reduced to a negative value for the first time (-0.10%). As to the supply of credit to households and firms, the Governing Council also introduced targeted longer-term refinancing operations on extremely advantageous terms for banks that increase their lending. Among the measures that can be taken in the event the low inflation persists is a securities purchase program.

The monetary policy measures had an effect on the markets: the EONIA rate fell by about 20 basis points and the interbank loan rate decreased by 10 basis points. The comprehensive assessment is still being performed in preparation for banking union.

Macroeconomic conditions in Italy

In the second quarter of 2014, Italian GDP remained unchanged. Foreign demand rose, while domestic demand fell. Consumers' assessments of the general state of the economy have improved markedly since February, but their opinions on their own personal situation seemed to reflect the uncertain trend in employment. Consumer price inflation fell further, to a twelve-month rate of 0.2%.

Industrial output has not yet picked up: production fell by 1.2% over the previous month, involving all components except for energy. This situation was unexpected given the increase in the business confidence indexes, which remained above compatible levels. The picture in the service sector was mixed, with confidence falling in market services. The performance of the investment components varied: expenditure on machinery rose by 0.5% after contracting for ten quarters. The outlook for construction remains uncertain, although a slight improvement was reported. Italian exporters' price competitiveness improved, a performance shared with the main euro-area players. Firms' profitability remained unchanged from the previous quarters.

Household consumption picked up, although the outlook is still uncertain. Household debt fell slightly, while debt servicing costs remained stable.

Exports rose (0.8%) more than imports (0.3%). The outlook for foreign orders is favorable. The current account surplus grew by 1%, reaching €3 billion in the first five months of the year. Foreign investors continued to invest their capital, buying €75 billion in Italian government securities, with a positive impact on Italy's TARGET2 balance, which amounted to €150 billion at the end of June.

Employment has stabilized. The intensity of labor utilization remains contained. The outlook for the labor market is stable.

(Source: Bank of Italy Economic Bulletin, July 2014)

The Italian banking system

The Italian banking system shows signs of improvement over the previous reporting period, however there are still indications that it remains fragile.

Growth will be slow: GDP is forecast to grow by 0.3% in 2014, rising to 1.2% in 2015. The main new developments regard the measures announced by the ECB: the most important of the unconventional approaches are the TLRTOs, which will initially make €75 billion available to the banking system. The liquidity received by the banks could jump start the credit cycle with a reduction in the cost of funding. The riskiness of lending will continue to create instability, leaving the level of provisioning higher than during the pre-crisis period.

The outlook for the profitability of the Italian banking system is improving, with ROE expected to reach over 5% in 2016.

The improvement in the economy, while slow, has had an impact on the bank lending market, and should support its growth over the next two years. Demand from the private sector should increase and supply should become more accommodating, particularly for households.

The outlook for the end of the year is that bank lending, excluding the component attributable to Cassa Depositi e Prestiti, should stabilize at the levels seen at the end of 2013 (+0.1% from -4%). Loans to households should rise slightly (+0.8%), with the long-term component expanding (+5.8%) and the short-term component continuing to contract (-2.6%) as a result of the repayment of general government debts, for overall growth at year-end of 2.7%.

The persistent weakness of the economy has led to an increase in the riskiness of customers. The stock of gross bad debts is expected to reach €210 billion by the end of 2016, equal to 11.7% of all loans. More than 70% of the bad debts are loans to companies, with a ratio of bad debts to total loans of 16.8% expected by 2016. By contrast, the ratio for households should be more contained, at 9%.

Direct funding by banks (deposits, bonds and repurchase agreements) fell in the first few months of 2014 as a result of the decline in bond issues and, starting in March, in deposits, with only the current account component demonstrating growth, buoyed by the expansion in the business component. Despite the growth in current accounts (+4.2%), the outlook for the end of 2014 points to a decline in overall funding, driven by the decline in the bond component (-14.4%) and in funding from abroad (-3.5%).

The reduction in official rates in June and the ECB's unconventional measures should cause the average cost of funding to fall by 16 basis points between 2014 and 2015 and the cost of the stock of bank bonds (an average of 3.2% for 2016) to fall under the impact, among other things, of the decline in the premium for sovereign risk. The cost of the most liquid funding components is also expected to decline.

The easing of pressure on funding costs and the maintenance of low policy rates should trigger a reduction in the rates on new loans to households and firms for the entire 2014-2016 period.

In 2014, the margin on customer lending should confirm that the trend has reversed, with growth rising to 18.7% this year after two years of decline, before slowing over the subsequent two years. The reallocation of portfolios and the drop in yields is expected to result in a decline in interest on securities.

The implementing procedures for the ECB measures should make it possible for banks to expand their portfolio of Italian government securities, facilitating the narrowing of spreads against the German bund. Overall, net interest income is expected to grow by 6.4% in the 2014-2015 period.

The trend in other net revenues is expected to reverse, with net fees and commissions performing well thanks to product policies that focus on asset management and insurance products. Revenues from securities business are also expected to make a positive contribution.

The net profit for the sector over the three-year period is forecast at €26 billion. The ROE should return to positive territory in 2014 (+0.8%), with a more marked increase in 2015, reaching 5.1% in 2016.

(Source: Previsione dei bilanci bancari, Prometeia, July 2014)

Mutual banks

Lending to mutual bank customers totaled €136.1 billion in March 2014, down across all geographical areas by 1% compared with the same period of 2013. The market share for loans was slightly down from December, reaching 7.3%.

Also taking into account loans disbursed by second-tier mutual banks, lending by mutual banks amounted to €150.2 billion. Loans to enterprises came to €88.6 billion, with a market share of 9.6% (€99.4 billion and a market share of 10.8% if those disbursed by second-tier mutual banks are included).

With regard to the breakdown of lending by segment, mutual banks, as with the rest of the banking system, posted declines in lending that were less than those reported in December: -0.8% for producer households and -1.9% for non-financial companies. Lending to consumer households remained unchanged with 0.0% growth, while lending to non-profit institutions rose by +0.6%. The market shares of these sectors remain high: 17.7% for producer households, 8.7% for non-financial enterprises and consumer households.

In March 2014, the stock of gross bad debts held by the mutual banks amounted to €12.1 billion, a year-on-year increase of 28.5%. The ratio of gross bad loans to total loans rose to 8.9%.

Total funding exceeded €194.5 billion in March, up 4.9% over the same period of 2013. Interbank funding increased by 14.3% year-on-year. Customer funding amounted to €160 billion, up 3.1%. Bonds issued fell by 6.9%, involving all areas of the country.

Figures for financial aggregates at the end of the first quarter underscored the stagnation during the period. Net interest income rose slightly, by 0.2%, compared with an increase of 3.4% for the banking industry as a whole. The containment of operating costs (-1.5%) is attributable to the contraction in personnel expenses and the reduction in depreciation and amortization. As a result of these developments, the operating profits of the mutual banks amounted to €1 billion, up 49.3% (compared with +2.1% for the entire banking system).

As of March 2014, there were 382 mutual banks, equal to 55.8% of all banks operating in Italy, with 4,458 branch offices, equal to 14.1% of the banking system total.

The mutual banks operate in 101 provinces and 2,711 municipalities.

The number of shareholders totaled 1,180,369, an increase of 0.7% for the year. The total number of customers came to 6,021,000, of whom around 1.6 million borrowers. The workforce remained essentially unchanged from the year-earlier period at 31,700 employees. The total workforce of the mutual banks amounted to 37,000 employees, including those of the companies of the mutual banking system.

(Source: Circolare statistica trimestrale Federcasse, March 2014)

3. DEVELOPMENTS IN OPERATIONS AND THE MAIN ITEMS OF THE BALANCE SHEET AND INCOME STATEMENT

The interim financial statements of Iccrea Banca S.p.A. for the period ended June 30, 2014, have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as with related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission in accordance with the procedures established under Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, and the provisions of Circular no. 262 of the Bank of Italy of December 22, 2005, regarding the preparation of bank financial statements, as further updated on January 21, 2014.

It should be further specified that the aggregates and related performance indicators shown below are intended to meet the requirements specified under Article 2428, first paragraph, of the Italian Civil Code that they facilitate understanding of company performance and financial position, and the source of risks. Accordingly, in order for these aggregates and indicators to be clearly interpretable and enhance the information provided in this report, the procedures followed in reclassifying the financial statements, the calculation procedures, and the meanings of the various aggregates and indicators are described below.

The balance sheet

To enable a more immediate reading of the asset and liability items, a condensed balance sheet has been prepared.

At June 30, 2014, total assets and liabilities and equity stood at €47,158 million, compared with €42,994 million at December 2013, an increase of 9.7%. On the asset side, growth was concentrated mainly in financial assets available for sale, with an increase of €737 million (+21.4%) and lending to banks, up €2,797 (+8.5%). On the liability side, the increase is attributable to amounts due to banks, up €2,726 million (+12.7%) and amounts due to customers, up €537 million (+3.5%).

BALANCE SHEET DATA (millions of euros)

AGGREGATES	June-14	Dec-13	Chg	% Chg
Due from banks	35,625	32,828	2,797	8.5%
Loans to customers	2,141	1,768	372	21.1%
Financial assets held for trading	444	440	4	0.9%
Financial assets at fair value through profit or loss	317	321	-4	-1.3%
Financial assets available for sale	4,186	3,449	737	21.4%
Financial assets held to maturity	3,584	3,755	-171	-4.6%
Other assets	202	217	-15	-6.9%
Total interest-bearing assets	**46,500**	**42,780**	**3,720**	**8.7%**
Other non-interest-bearing assets	658	215	443	206.5%
TOTAL ASSETS	**47,158**	**42,994**	**4,163**	**9.7%**

BALANCE SHEET DATA (millions of euros)

AGGREGATES	June-14	Dec-13	Chg	% Chg
Due to banks	24,118	21,392	2,726	12.7%
Due to customers	15,797	15,260	537	3.5%
Securities and	5,679	5,442	237	4.3%

financial liabilities				
Liabilities associated with assets held for sale	293	33	260	790.3%
Other liabilities	586	207	382	182.7%
Total interest-bearing liabilities	**46,472**	**42,334**	**4,138**	**9.8%**
Other non-interest-bearing liabilities	136	123	13	10.8%
Shareholders' equity and provisions	526	497.2	28	5.7%
Net profit for the period	23	40	-17	-41.9.1%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**47,158**	**42,994**	**4,163**	**9.7%**

Changes in the main asset and liability aggregates are discussed below.

Assets

Total interest-bearing assets increased from €42,780 million in December 2013 to €46,500 in the first half of 2014 (+8.7%). The increase comprised amounts due from banks in the amount of €2,797 million (+8.5%). Mutual bank operations with Iccrea Banca is mainly in the form of financing backed by pool collateral (refinanceable securities). The total as at June 30, 2014, came to €19,216 million. The collateral securities pledged by the mutual banks totaled €23,172 million net of the haircut applied to the various types of securities.

As the manager of the Group's financial resources, the Bank handles the funding and lending for all of the companies of the Group. In particular, the aggregate "Due from banks – Debt securities" includes securities issued by Iccrea BancaImpresa in the total amount of €3,193 million. Within the aggregate of amounts due from banks, amounts due from mutual banks increased by 3.2% (from €19,168 million in December 2013 to €19,788 million in June 2014), while amounts due from other credit institutions increased from €13,660 in 2013 to €15,837 million in June 2014 (+15.9%).

Amounts due from banks	**June-14**	**Dec-13**	**Chg**	**% Chg**
Mutual banks	19,788	19,168	620	3.2%
Other credit institutions	15,837	13,660	2,177	15.9%
Total	**35,625**	**32,828**	**2,797**	**8.5%**

BREAKDOWN OF AMTS DUE FROM BANKS	**June-14**	**Dec-13**	**Chg**	**% Chg**
Claims on central banks	**410,699**	**467,426**	**-56,727**	**-12.1%**
Reserve requirement	410,699	467,426	-56,727	-12.1%
Due from banks	**35,214,211**	**32,360,287**	**2,853,924**	**8.8%**
Current accounts and demand deposits	779,790	526.695	253,095	48.1%
Fixed-term deposits	321,419	1,152,394	-830,975	-72.1%
Other	30,489,135	26,410,172	4,078,963	15.4%
Debt securities	3,623,867	4,271,026	-647,159	-15.2%
Total due from banks	**35,624,910**	**32,827,713**	**2,797,197**	**8.5%**

Loans to non-bank customers grew by 21.1% from €1,768 million to €2,141 million, attributable mainly to repurchase agreements in the amount of €500.8 million. Impaired assets, equal to €23.7 million, declined by 20.7% compared with December 2014.

BREAKDOWN OF LOANS TO CUSTOMERS	June-14	Dec-13	Chg	% Chg
Current accounts	219,505	153,036	66,469	43.4%
Medium/long-term loans	154,720	151,923	2,797	1.8%
Repurchase agreements	500,786	19,160	481,626	2513.7%
Other transactions	**1,224,753**	**1,397,430**	**-172,677**	**-12.4%**
Debt securities	17,292	16,883	409	2.4%
Impaired assets	23,744	29,949	-6,205	-20.7%
Total loans to customers	**2,140,800**	**1,768,381**	**372,419**	**21.1%**

The portfolio of financial assets held for trading posted a slight increase (from €440.4 million to €444.1 million), up 0.9% from December 2013.

BREAKDOWN OF FINANCIAL ASSETS HELD FOR TRADING	June-14	Dec-13	Chg	% Chg
Debt securities	18,193	5,526	12,667	229.2%
Equity securities	590	489	101	20.7%
Units in collective investment undertakings	935	904	31	3.4%
Total on-balance-sheet assets	**19,718**	**6,919**	**12,799**	**185.0%**
Derivative instruments	424,427	433,461	-9,034	-2.1%
Total derivative instruments	**424,427**	**433,461**	**-9,034**	**-2.1%**
Total financial assets	**444,145**	**440,380**	**3,765**	**0.9%**

At the end of June 2014, the portfolio of financial assets available for sale amounted to €4,186 million, compared with the €3,449 million posted at December 2013.
For further details, please see Part B, sections 2 to 4, of the notes to the financial statements.

Liabilities

Interest-bearing funding totaled €45,471 million, an increase of 9.8% year-on-year (up €4,141 million).

Interbank deposits came to €24,118 million, up 12.7% on December 2013 (€21,392 million).

Due to banks	June 2014	Dec. 2013	Chg	% Chg
Mutual banks	7,098,962	6,220,169	878,793	14.1%
Other credit institutions	17,018,711	15,171,783	1,846,928	12.2%
Toal	**24,117,673**	**21,391,952**	**2,725,721**	**12.7%**

Within this aggregate, funding from mutual banks rose by 14.1% (from €6,220 million in December 2013 to €7,097 million in June 2014) and amounts due to other credit institutions increased by 12.2% (from €15,172 million to €17,019 million). "Amounts due to central banks" represent funds received from the ECB in respect of advances secured by securities owned both the Bank and the mutual banks. This figure also includes the advance of €271,150 thousand received for the secured liability of €290,000 thousand issued pursuant to Art. 8 of Decree Law 20 of December 6, 2011, ratified with Law 214 of December 22, 2011. The Company expects to repay and extinguish this liability during the second half of the year. "Fixed-term deposits" also includes deposits received from the mutual banks in the amount of around €740,000 thousand for the indirect discharge of reserve requirements.

BREAKDOWN OF AMOUNTS DUE TO BANKS	June-14	Dec-13	Chg	% Ch
Due to central banks	16,057,891	14,044,974	2,012,917	14.3%
Current accounts and demand deposits	4,185,382	4,516,451	-331,069	-7.3%
Fixed-term deposits	3,811,393	2,762,112	1,049,281	38.0%
Loans	61,601	66,633	-5,032	-7.6%
Other payables	1406	1782	-376	-21.1%
Total amounts due to banks	**24,117,673**	**21,391,952**	**2,725,721**	**12.7%**

Funding from non-bank customers increased compared with December 2013, going from €15,260 million at December 2013 to €15,797 at June 2014, due mainly to repurchase agreements with Cassa di Compensazione e Garanzia.

BREAKDOWN OF AMOUNTS DUE TO CUSTOMERS	June-14	Dec-13	Chg	% Chg
Current accounts and demand deposits	406,891	705,522	-298,631	-42.3%
Fixed-term deposits	1,206	26,014	-24,808	-95.4%
Loans	14,994,668	14,133,497	861,171	6.1%
Other payables	394,612	394,941	-329	-0.1%
Total amounts due to customers	**15,797,377**	**15,259,974**	**537,403**	**3.5%**

Securities issued

Securities funding increased during the period, from €4,287 million at December 2013 to €4,512 million at June 2013. The aggregate includes bonds issued by the Bank that are hedged for interest rate risk by derivatives, the fair value of which is adjusted for changes in the hedged risk as at the balance sheet date, and unhedged bonds, which are recognized 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.

Shareholders' equity

At June 30, 2014, the strength of the Bank's financials can be seen, in particular, in the level of equity, which totals €518.9 million not including net profit for the period.

Share capital, which is represented by 420,000 ordinary shares with a par value of €516.46 each, was unchanged at €216.9 million. Reserves totaled €186.9 million, up 2.9% from the previous €181.7 million.

Valuation reserves came to €115 million, an increase of €23 million from December 2013.

The income statement

In order to facilitate a more immediate understanding of performance for the period, a condensed reclassified income statement has been prepared. The figures for the two periods are comparable and not affected by changes in scope.

Reclassified income statement (thousands of euros)	Income statement	June 2014	June 2013	% change
Net interest income		33,805	37,158	-9.0%
	10. Interest income and similar revenues	208,902	235,012	-11.1%
	20. Interest expense and similar charges	-175,097	-197,854	-11.5%
Net fee and commission income		60,112	58,166	3.3%
	40. Fee and commission income	181,679	167,259	8.6%
	50. Fee and commission expense	-121,567	-109,093	11.4%
Dividends	70. Dividends	517	143	260.2%
Gains/losses on financial transactions		23,266	30,035	-22.5%
	80. Net gain (loss) on trading activities	11,095	12,876	-13.8%
	90. Net gain (loss) on hedging activities	-537	822	-165.4%
	100. Net gain (loss) on disposal or repurchase	14,972	27,273	-45.1%
	110. Net gain (loss) on financial assets and liabilities at fair value through profit or loss	-2,263	-10,936	-79.3%
Other operating expenses/income	190. Other operating expenses/income	10,012	9,933	0.8%
	Total revenues	**127,712**	**135,435**	**-5.7%**
Administrative expenses	150. Administrative expenses	-87,805	-80,108	9.6%
Depreciation and amortization		-3,333	-3,342	-0.3%
	170. Net adjustments of property and equipment	-1,289	-1,766	-27.0%
	180. Net adjustments of intangible assets	-2,044	-1,577	29.6%
	Gross operating profit	**36,574**	**51,985**	**-29.6%**
Net provisions	160. Net provisions for risks and charges	-271	169	-259.8%
Net losses/recoveries on impairment	130. Net losses/recoveries on impairment	983	357	175.5%
Income taxes	260. Income tax expense from continuing operations	-14,243	-19,888	-28.4%
Profit (loss) from non-current assets held for sale	270. Profit (loss) from non-current assets held for sale	23,044	32,623	
	280. Profit (loss) from disposal groups held for sale	200	-	
	Net profit (loss) for the period	**23,244**	**32,623**	**-28.7%**

Net interest income

Net interest income at June 30, 2014 came to €33.8 million, down 9% compared with June 30, 2013 (€37.2 million). Net interest income at June 30, 2014 included the effects of items pertaining to the disposal of the custodian bank business. Its decrease is attributable to:

- the lower contribution of the investment portfolio, where securities were sold during the period to take advantage of opportunities that arose from the volatility of the markets, with the related liquidity generated generally being reinvested at lower market rates;
- the interest rate effect traceable to a general decline in reference rates.

Net interest income as a proportion of total revenues remained unchanged from June 2013 at 26.5%.

Fees and commissions

At June 30, 2014, net fees and commissions from services amounted to €60.1 million, up €1.9 million from June 2013 (+3.3%).

Gains/losses on financial transactions

In the first half of 2014, gains on financial transactions, which includes the net result on trading activities (€11.1 million), the net result on hedging activities (-€0.5 million), the net result on disposal and repurchase (€15 million) and the net result on financial assets/liabilities at fair value through profit or loss (-€2.3 million), came to €23.3 million, a decrease of €6.8 million (-22.5%) compared with June 2013 (€30 million). The change is due mainly to the gains on the disposal of financial assets available for sale.

Total revenues

The Bank posted total revenues of €127.7 million in the first half of 2014, a decline of around €7.7 million (about 5.7%) compared with June 2013.

Operating expenses

Operating expenses incurred in the first half of 2014 totaled €91.1 million (€83.5 million in June 2013) and include personnel expenses, other administrative expenses, indirect taxes and duties, and net adjustments of property and equipment and intangible assets.

Compared with the previous year, total administrative expenses increased by €7.7 million, reflecting an increase in personnel expenses of €0.7 million and one in other administrative expenses of €7 million.

Personnel expenses

Personnel expenses for the Bank came to €31.7 million at June 2014, compared with €31 million at June 2013, a rise of €0.7 million (+2.3%).

Other administrative expenses

Other administrative expenses totaled €56.1 million in June 2014, up 14.2% compared with the previous year (€49.1 million). For further details, see the notes to the financial statements (Section 9 – Administrative expenses – Item 150, table 9.5).

Net adjustments of property and equipment and intangible assets

Adjustments totaled about €3.3 million at June 30, 2014, of which €1.3 million for depreciation and €2 million for amortization.

Gross operating profit

As a result of the foregoing, the gross profit from ordinary operations came to €36.5 million, down 29.6% compared with June 2013 (€52 million).

Net profit for the period

Net profit, consisting of profit from continuing and discontinued operations, net of the change in direct taxes for the period, amounted to €23.2 million, compared with €32.6 million in June 2013, a decrease of 28.7%.

The cost-to-income ratio went from 61.6% in the first half of 2013 to 71.4% at June 2014.

4. BANK OPERATIONS

The following section contains information on the primary activities carried out in the first half of 2014 by the various company structures.

FINANCE

In the first half of 2014, Iccrea Banca, in its role as the Group finance hub, provided support to the mutual banks and to the Group companies through a series of initiatives in monetary and financial markets, as well as in collateralized markets.

In a period marked by a further decline in yields on the bond markets, the dynamic management of the proprietary portfolio generated significant profit margins, which helped support, although to a different extent than the previous year, the levels of returns offered to the mutual banks through our various forms of lending, at both short and long term.

With regard to the management of the mutual banking system's liquidity, in the first half of 2014 the mutual banks made more extensive use of collateralized funding activities, both through transactions with the ECB and with market counterparties.

The remaining total involvement in the two three-year auctions came to €10.4 billion at the end of the period. The total amount of collateralized loans to the mutual banks from Iccrea Banca using the collateral pool mechanism rose from €18.5 billion at the end of December 2013 to €19.2 billion in June 2014.

Following the ECB's announcement on June 5 of its new monetary policy measures, we began work on forming a longer-term refinancing operations (TLTRO) group in order to enable the mutual banks to access the new facilities.

In the area of structured finance operations to support the mutual banks, one single-assignor securitization transaction was carried out and structuring of the EIB CF15 transaction began.

With regard to the supply of investment instruments, the Company continued to offer a system centered on fixed-term deposits, investment accounts and bonds, both to bank members and to be distributed to their customers.

Other initiatives include the issue of a seven-year, Tier-II €200 million bond through mutual bank customers.

Six senior bond issues were placed through the mutual bank network.

With reference to intermediation of government and other issuer bonds, there was a further strong increase in the volumes traded, which reached more than €153 billion, again placing Iccrea among the principal operators in the sector.

With regard to placement activities, we took part in collective guarantee entities for the fourth issue of BTP Italia bonds (Italian treasury bonds) as co-dealer and in the Fineco Bank IPO.

With regard to Iccrea Banca's growing role in the money and financial markets, the Company's continued its involvement in the working groups formed by ABI, AssiomForex, the Bank of Italy and UNICO.

Proprietary Finance and Trading

The Proprietary Finance and Trading department is organized into four units, which are involved in:

- market making on the Hi-MTF, EuroTLX and MOT multilateral trading systems;
- trading government securities on regulated markets, multilateral trading systems and/or off-market transactions;
- activities to identify the finance needs of the Bank and the other companies of the Iccrea Banking Group and to formulate investment proposals for the proprietary portfolio and to manage interest rate, exchange rate and liquidity risks;
- managing the Bank's portfolio, including using unlisted financial derivatives;
- funding through the issue of bonds on domestic and international markets.

About 450 euro-denominated bonds and 70 Italian government securities were listed on the Hi-Mtf market, while 186 euro-denominated bonds and 69 Italian government securities were listed on the EuroTLX.

Around €2 billion in corporate securities were traded, up 100% over the first half of 2013, comprising just over €1.2 billion in OTC trading, around €300 million on the Hi-MTF and the remaining €450 million on the TLX. The volume of Italian government securities traded amounted to €6.2 billion, compared with €4.8 billion in the first half of 2013, an increase of 30%.

The performance achieved to date in the Italian government securities segment is mainly attributable to the Bank's participation, as co-dealer, in the placement of BTP Italia bonds issued by the Italian Treasury in late April 2014 and its consequent role as liquidity provider in the MOT market. This latter activity involved daily trading equal to 20% of the total trading volumes for the bond, making Iccrea Banca one of the primary domestic market-makers for this specific issue.

Iccrea Bank also acted as a market-maker on the TLX market, where it handled about 13% of the trades on average, for about 66,000 transactions.

With regard to the trading of liquid and illiquid securities, around 1,400 securities were traded, ensuring the mutual banks rapid, efficient execution of orders.

Finally, around 40 issues were placed on the primary bond market (Eurobond) and €142 million in securities issued by the Bank were repurchased.

As at June 30, Italian government securities amounting to around €120 billion had been traded on the MTS and BondVision platforms, an increase of 136% over the same period of 2013.

These volumes generated a profit of €9.4 million, compared with €7 billion projected in the budget for the entire year. On MTS's ranking of the various classes of listed and traded government bonds, the Bank ranked 7th out of 37 in the CCT (Treasury credit certificates) segment and 19th out of 42 in the BTP (Italian treasury bonds) segment.

The significant increase in volumes traded further raised the visibility of Iccrea Banca within the financial community, making us a reference for all the major market counterparts in the wholesale trading of Italian government securities. Recognizing the Bank's growing role in the market, the Ministry of the Treasury, for the first time, appointed the Bank to serve as co-dealer in the sixth BTP Italia issue held from April 14 to 17, 2014.

As to transactions in derivatives, during the period, volumes traded had a nominal value of about €1.64 billion.

The mutual bank system negotiated derivative contracts with a total notional value of around €470.5 million, indicating that this business segment is experiencing a recovery as compared with the previous year (the notional amount transacted for 2013 as a whole totaled €324 million). The mutual banks continued to focus on operations for hedging interest rate risk connected with funding activity: largely fixed-rate bond issues (around €368 million) and, to a lesser extent, interest rate arrangements (e.g., variable rates with caps and floors). On the asset side, a number of mutual banks seized market opportunities offered by the higher yields on BTPei bonds as compared with the nominal BTP yields, buying securities while simultaneously carrying out asset-swap transactions to hedge interest rate risk (around €83 million).

Market conditions are still quite challenging: since the start of the year, interest rates have continued to fall, consistent with a macroeconomic scenario characterized by numerous factors contributing to uncertainty about a possible economic recovery in the euro area and by low levels of inflation, carrying with it the threat of deflation.

On the funding front, 8 bond issues were carried out for a total of €386 million, with an annual residual maturity at issue of 6.69 years and an average cost estimated the time of issue of around 4% corresponding to a return at issue of around 150 basis points above the average for BTPs of like maturity.

Of the total for the above issues, 17% were placed with institutional customers (€68 million) and 83% were placed with retail customers (€319 million). This latter channel was used especially to place a Tier II subordinated bond with a nominal value of €200 million, an average weighted maturity of 5 years and a funding cost of 5.10%, corresponding to a spread of 270 basis points with respect to the BTP of like maturity.

The nominal value of the overall stock at June 30, 2014 amounted to €5.6 billion with an annual residual maturity at issue of 2 years (compared with a value of €5.075 billion and a residual maturity of 2.43 years in June 2013). This value also includes the share of the Bank's own issues that it redeemed and extinguished in the first half of the year with a nominal value of €107 million. During the period, this operation had a negative impact on the income statement of around €2 million (fully offset by the gains generated on the banking book) and will have a positive impact in terms of lower interest expense of around €4.9 million, of which about €2.5 million for 2014 alone.

During the first half of the year, the size of the Bank's proprietary portfolio was essentially in line with June 30, 2013. More specifically, the Italian government securities component amounted to €7.5 billion, compared with €7.7 billion for the corresponding period of the previous year. The average maturity in these assets was 1.6 years, down from 2 years at June 30, 2013.

In the first half of 2014, there was good roll over in the portfolio, taking advantage of the considerable volatility of the markets in the first quarter of the year. These operations made it possible to achieve a profit of €19 million, equal to 95% of the annual profit set out in the budget for the portfolio. Despite the considerable contraction in interest rates on government securities, the volatility of the market made it possible to take advantage of attractive opportunities, leading to better results than those projected in the budget.

The component comprising medium/long-term intercompany assets remained sizable at €4.1 billion, about the same as at June 2013 (€4.0 billion, net of matured positions.

More specifically, between June 2013 and June 2014, there was a 67% increase in positions net of matured assets for BCC Lease, amounted to €191.6 million and 23% per BCC CreditoConsumo, which reached €378 million. There was a slight contraction in the stock of Iccrea BancaImpresa's securities, which equaled €3.5 billion.

Treasury and Foreign Exchange

In the first half of 2014, the Treasury and Foreign Exchange unit's activity was organized to execute ordinary operations (for the mutual banks, the Group companies and other customers) more effectively and to handle the important changes in the markets and the internal process organization. The unit is organized as follows:

- the Foreign Exchange unit: handles access to foreign exchange and precious metals markets, handling operations and management of exchange rate risk;
- the Treasury unit: handles money market operations (cash and secured), meeting funding/short-term investment requirements and the management of liquidity and short-term interest rate risks;
- a staff team dedicated to various projects under way (Kondor+ front-office system; T2S and Liquidity Management; ABACO; EMIR).

Treasury operations

In the first half of 2014, the Bank's strong, stable liquidity position enabled dynamic management of market operations, particularly in the secured operations segment. Trading was handled on collateralized markets, optimizing the use of special bonds on the intraday market (TN/SN), which frequently offer negative rates. When the market reported interest rates higher than the ECB reference rate, the Bank took part in the ordinary ECB auctions, especially when close to tax deadlines, the end of the month and based upon the early repayment figures for the LTROs of the entire banking system. We negotiated 308 deals on the New-Mic (collateralized interbank market), amounting to €13.5 billion, equal to 12% of the total volumes traded on the reference market.

A total of 10,096 contracts were traded on the MTS platform for a total of around €253 billion.

The figures reported at June 30, 2014 show high volumes of collateralized operations. Funding from the ECB amounted to €15.4 billion, of which €10.4 billion representing the residual amount of the 3-year LTRO and €5 billion raised through ordinary auctions. The Collateralized commitments to the ECB at June 30, came to €19.2 billion, broken down as follows:

- €14.4 billion for ECB auctions
- €4.8 billion for market operations

Repo funding operations at June 30, 2014 amounted to €15 billion.

A portion of these operations consisted of long-term funding intended for specific hedges of investments in the portfolio.

Unsecured transactions were used to meet the funding requirements of the Iccrea Banking Group and were carried out in accordance with the targets set by the Group's Finance Committee with regard to both costs and diversification of the types of funding.

Funding from the mutual banks at June 30, amounted to around €6 billion, divided as follows:

- €1.2 billion in deposits
- €1.5 billion in investment accounts (average balance of €1.78 billion)
- €3.3 billion in daily settlement accounts (average balance of €4.08 billion)

Good funding through intraday trading (ON) was also raised on the unsecured (E-Mid) market. In the first half of the year, 1,398 funding deals were transacted for a total of €39.8 billion, equal to 6.35% of the volumes traded on the E-Mid market.

Based on the new calculation methods used by the Ministry for the Economy and Finance to verify whether the requirements for participation were met, Iccrea Banca was once against allowed to participate in the OPTES auctions starting from June 13th.

Foreign exchange operations

Foreign exchange operations involved the normal services provided to the mutual banks and to customers through the Webfin trading portal, proprietary trading (which recovered in the second half of 2013), foreign exchange derivatives and, finally, products in the gold segment (loans and sales). The volumes of foreign exchange transactions indicate a consolidation across all areas, encouraged by the following factors:

- a recovery in proprietary activity and the repositioning of Iccrea Banca on the spot foreign exchange market. (The figures at June 30, circulated by one of the most important market providers ranked Iccrea Banca 3rd at the national level, 94th at the European level and 221st at the world level for volumes traded. At the end of 2013, we were ranked 7th, 190th and 470th, respectively);
- the improvement in the pricing system on the Webfin portal, with the publication of prices for operational purposes, not just information purposes.

	Number of operations		**Total amount in euros**	
	MUTUAL BANKS	MARKET	MUTUAL BANKS	MARKET
FX-SPOT	53,000	8,140	1,295,000,000	9,800,000,000
FX-FWD	2,220	34	575,829,624	100,225,000
FX-SWAP	820	480	3,338,190,000	8,339,264,000
OPTIONS		21		69,000,000

In the precious metals segment, thanks to the agreement with a new supplier, it was possible to offer more competitive rates and conditions, enabling the acquisition of new primary customers. In the first half of the year, new loans were made in the amount of 97 ingots + 10 bars (equal to 7,100 ounces, worth around €7 million). In addition, contracts were entered into for the sale of 40 ingots + 3 bars (equal to 2,500 ounces, worth around €2.5 million).

During the period, the Foreign Exchange unit was also continually engaged in conducting the preliminary analysis, technical testing and installation of the new Kondor Plus (K+) front-office system, which was definitively launched in early July.

The K+ application will enable a significant improvement in the speed of data acquisition (real time updating of all spot and forward positions) and in quantitative analysis and monitoring of profit/loss, market risk and counterparty risk.

Profit at June 30, 2014 amounted to €761,000.

Work on projects

We made a particularly strong effort in committing internal resources to dedicated planning activities.

The new front-office project was completed with the analysis of the system and the migration. The effective transfer of production, which occurred at the beginning of July, makes it possible to benefit immediately from more advanced position-keeping for exchange rate risk. The activities for completing the migration of all treasury books are still ongoing.

With regard to the work on T2S Liquidity Management, a preliminary analysis of requirements was performed, then used in the software section. The phase of defining the detailed specification with the chosen vendor began in the second half of June. Work on implementing the new architecture to support the treasury in managing cash and collateral began on July 1st.

With regard to the ABACO project, in June testing began with the STDs, partly in view of the ability to use bank loans in the extraordinary mechanisms deployed by the ECB.

Institutional Sales

In 2014, the Institutional Sales unit continued to develop its model of investment services based on the continuous evolution in the needs of the mutual banks and their customers, with the goal of laying the groundwork for a new technological architecture that integrates operations, an indispensable condition for the creation of strategies for expanding indirect funding for the mutual bank system.

ORDER COLLECTION

With regard to the collection of orders for instruments listed on regulated markets and on the MTF, the first half of 2014 was marked by strong activity by the mutual banks in the financial markets. This dynamism can be seen in the volumes of bonds listed on regulated markets and on the Italian MTFs (MOT, EuroTLX, HI-MTF) traded by the mutual banks through the Bank.

The combination of favorable market dynamics and the constant development of operational solutions for the mutual banks by Iccrea Banca made it possible to reach a trading volume of €25 billion during the period, an amount very close to the record reported for the same period of 2013.

This performance was further reinforced by the position of Iccrea Banca and the mutual banks in the rankings issued by the markets (Borsa Italiana, HI-MTF, EuroTLX) regarding total volumes traded by participants.

More specifically, Iccrea Banca was ranked:

- 2nd among member intermediaries of ASSOSIM in the "Domestic MOT" segment of Borsa Italiana with a 14.37% market share;
- 2nd in volumes traded on behalf of third parties in the HI-MTF market with a 24.85% market share;
- 3rd in the "Bonds" category prepared by ASSOSIM, which aggregates the

volumes traded by member intermediates on behalf of third parties on the MOT, EuroTLX and HI-MTF, with a market share of 11.44%.

As to orders collected for shares listed on Borsa Italiana, there was a strong increase in volumes, going from €2.1 billion in the first half of 2013 to €4 billion in the same period of 2014.

The Borsa Italiana FTSE MIB index, which even back in 2013 saw a sharp recovery that brought the index up to 19,000 points, ended the first half of this year at 21,283, after hitting a three-year high of 22,503 points.

This trend was also seen in the collection of orders for unlisted bonds denominated in euros. During the period, there was a strong increase in volumes traded by the mutual banks with the Bank, reaching a total of €1.2 billion, compared with the €530 million reported in the first half of 2013.

PRIMARY MARKET

The primary market registered a considerable expansion in volumes compared with the same period of 2013, going from €3.5 billion to €4.6 billion, thanks in part to participation in the placement of the sixth BTP Italia issue.

Alongside its normal activity of providing support and assistance to the mutual banks during the placement stage, the most significant change was the appointment by the Ministry for the Economy and Finance of Iccrea Banca to serve as co-dealer for the issue, in recognition of the growing dynamism and increasingly important positioning of the mutual bank system within the Italian financial panorama and in the government securities market.

Through the Bank, the mutual banks subscribed €2.7 billion, equal to 13% of the total placement, a significant increase over the 7.7% posted for the fifth issue.

More specifically, mutual bank members subscribed 22% of the issue reserved for institutional investors.

The remaining placement activity regarded participation in auctions for government securities, which the mutual banks subscribed in the amount of €1.7 billion, while our bonds distributed through the mutual banks and their customers amounted to €336 million. Moreover, the great success of the placement of our Tier II subordinated bond (4.75%, maturing March 14, 2021) closed early since the total amount of the offering, equal to €200 million was reached with more than €400 million in demand. The issue was entirely awarded to the customers of the mutual banks.

BCC VITA PRODUCTS

The assets under management in the portfolios of BCC Vita between January and May 2014 grew considerably, rising from €1,350 million to €1,500 million based upon market capitalization, for an increase of over 11%.

The reasons for this growth mainly relate to the new contributions of liquidity made by the company, along with the rise in the value of the assets as a result of the positive market trends for the bond and equity segments.

In addition to the favorable market environment, the increase in funding is certainly attributable to the results of management activities in the preceding months which led to a significant improvement in portfolio profitability, especially when compared with market rates for the same period. This helped the company to establish commercial policies that led to significant in-flows of liquidity through new policies, particularly for the "BCC Vita Garantita" product.

Activity in the first half of 2014 focused on achieving better risk/return ratios on investments made with the large volume of new liquidity generated, seeking, at the same time, to not penalize the performance posted in the preceding months despite the significantly lower returns found on the markets. The securities in which investment was made were largely government bonds (BTP, BTP Italia), corporate bonds chosen on the basis of creditworthiness and equities. As the same time, a strategy was agreed upon with the company aimed at steering the returns to levels sustainable for the company, taking into consideration the steady downward trend in market rates.

To briefly demonstrate the above, taking as an example "BCC Vita Garantita", the largest product in terms of assets, we see that the return fell from 3.83% at the end of 2013 to 3.78% at the end of May 2014 on new net funding invested in the amount of around €130 million and compared with a market yield for the 7-year BTP (similar in duration to the average for the portfolio) which averaged at 2.67% for the period.

Management of the separate accounts portfolios of BCC Vita S.p.A. was terminated at the end of May 2014 with their transfer to BCC Risparmio & Prevedenza as instructed by the Parent Company.

Securitisations

The Securitisations unit develops, in cooperation with the Bank's other operating units, securitization initiatives for the mutual banks and the Group companies, performing the related upfront and ongoing activities.

The main activities carried out in 2014 were as follows:

- structuring of a new single-assignor (CassaPadana) securitization involving residential mortgage loans, for around €179 million, denominated "Dominato Leonense"; the issue occurred on June 6, 2014;
- began structuring of a new securitization involving secured and unsecured commercial loans, in which 15 mutual banks participated, in the amount of around €350 million, denominated "Credico Finance 15". The operation will be completed with the subscription of the senior notes by the EIB and institutional investors, secured by the EIF;
- monitoring of activities for the production of the "Loan by Loan" reports required by the ECB in respect of the following operations: Credico Finance 8, Credico Finance 9, Credico Finance 10, Credico Finance 11, Credico Finance 12, Credico Finance 14 and Dominato Leonense;
- completion of the closure of the BCC Securis operation with cancellation of the company from the Company Register;
- initiation of the feasibility study on the structuring of a new securitization operation with underlying receivables in respect of current account overdrafts (ECB eligible collateral);
- began structuring of a new securitization transaction involving residential mortgage loans.

Finance and Middle Office Technical Secretariat

In the first half of 2014, the Finance and Middle Office Technical Secretariat oversaw the development of the Finance business, as well as middle-office and collateral management services.

As to providing support to the Finance units in order to meet the funding requirements of the Iccrea Banking Group, the unit was involved in:

- obtaining CONSOB's approval for the new Italian issue program amounting to a total of €1,500 million, needed for senior bond issues in euros and other currencies, targeted at the retail customers of mutual banks, institutional customers and the retail customers of intermediaries other than the mutual banks. Iccrea Banca's offering could be structured around 8 issue programs set out in the basic prospectus: at fixed rates, zero coupon, fixed rates with step-ups, variable rates with floors and ceilings as appropriate, mixed-rates, including bonds indexed to the performance of a financial asset or a financial index, call option and steepeners with possible floors and ceilings;
- the preparation of the basic prospectus for subordinated bond issues for a total amount of €500 million. Following the approval of this basic prospectus by CONSOB in February 2014, the first fixed-rate subordinated bond issue by Iccrea Banca amounting to €200 million was carried out with 90% of the amount

offered being placed with the mutual banks' customers;

- the renewal of a UK-law issue program for the equivalent of €3,000 million (Euro Medium Term Notes – EMTN) for the issue of senior bonds on capital markets. These notes – which have been assigned ratings by Standard & Poor's and Fitch, and are listed on the Luxembourg exchange – meet the eligibility requirements for refinancing operations with the ECB;
- the preparation of a special contract to supplement to extending of credit in favor of the mutual banks in the context of the collateral pool (ABACO). This project involves extending the line of credit to the mutual banks by providing a guarantee to the ECB of non-negotiable assets as "third-party guarantor".

As part of its collateral management activities, the Finance and Middle Office Technical Secretariat continued work on the project to optimize risk weighted assets (RWA) through the adoption of risk mitigation techniques, specifically set-off arrangements in transactions involving OTC financial derivatives with the mutual banks, which led to an 80% reduction in the associated capital requirement for these latter. In respect of this, 163 securitization agreements were entered into, initiating daily margining for positions in OTC derivatives. June 30, 2014, security received amounted to €58.7 million and security given equaled €102.7 million.
With regard to the UK-law financial guarantee contracts (ISDA Credit Support Annex) relating to trading in OTC derivatives entered into with major market counterparties (39 ISDA CSAs), at June 30, 2014, security received and given amounted to €48 million and €175 million, respectively.
As to investing and/or financing operations, we handled agreements for daily cash margining. In line with the risk mitigation techniques mentioned above, these agreements (Global Master Repurchase Agreement - GMRA) govern repurchase agreements and the related exchange of guarantees in the event of any change in the mark-to-market value of the underlying security.
As of June 30, there were 10 GMRAs and guarantees received totaling €0.41 million.
In order to support the mutual banks more effectively, the Derivatives Portal was launched during the first half of 2014. The 200 participating banks can use this tool (with the appropriate frequency) to comply with the reconciliation requirements envisaged by Regulation (EU) no. 648/2012 (EMIR).

Lending

During the first half of 2014, the Lending area continued to support the mutual banks, offering a range of credit solutions to respond to various operational needs – ordinary and extraordinary – that have arisen in the mutual banks' markets, reinforcing the role of Iccrea Banca as partner of the mutual banks who anticipates their needs.

Part of this includes the process of continually refining techniques for assessing bank counterparties. In collaboration with other competent structures, the Lending area has formalized the framework for determining appetite for risk (Risk Appetite Framework – RAF), risk tolerance thresholds, risk limits and risk governance policies, as well as the associated processes for defining and implementing them.

During the period, Iccrea Banca provided financial and operational support to the mutual banks and to banks that rely on the Bank through 448 financing operations in the form of operating loans and facilities and 24 preliminary opinions. The trend in lending in 2013 is being confirmed in 2014. The total amount lent at June 30, 2014 reached €19,670 million (of which €19,373 million to the mutual banks and €297 million to ordinary banks), confirming even further the full recognition of Iccrea Banca's.

Uses of loans mainly regarded lines of credit for treasury operations secured by collateral pools (€19,224 million). The remaining portion was represented by bonds subscribed by the Bank to support the medium/long-term funding of the mutual banks (€426 million) and the use of financing for gold loans (€15 million), residual mortgage loans (€3 million) and lines of credit for treasury operations (equal to €2 million).

More specifically, of the total financing authorized, 241 concerned lines of credit granted to the mutual banks and other banks served indirectly, 121 of which related to new or increased financing under the "collateral pool" instrument.

Iccrea Banca also supports a number of mutual banks that find themselves in particularly problematic situations, with the implementation of support interventions, sometimes in partnership with other central institutions of the mutual bank industry. In the first half of 2014, these operations took the form of authorizing the disbursement, through various types of financing excluding lines of credit secured by the collateral pool, of €34 million to mutual banks facing crisis situations or in difficulty.

During the first half of 2014, €1.6 million in sureties were issued on behalf of banks, bringing the total at June 30, 2014 to €4.0 million, of which €3.2 million granted to mutual banks and €0.8 million to the ordinary banks.

As regards the bankers' draft service performed for the mutual banks and the banks that use our Bank as an "intermediary bank", the facility limits authorized during the year for loans and increases amounted to €236 million, with 12 positions authorized in the first half of 2014.

At June 30, 2014 the number of counterparties that took advantage of this service was 284, for a total stock of €5,215 million.

Correspondent Banking

In the first half of 2014, the Correspondent Banking unit networked intensely to strengthen relationships with major foreign banks in order to support the foreign operations of the mutual bank customers. More specifically, it participated in the European Bank for Reconstruction and Development (EBRD) Annual Meeting in Poland, and that of the International Finance Company (IFC), a World Bank Group institution, in Portugal. These meetings led to the conclusion of a number of deals for the export of goods and services under the Trade Facilitation Program of the two supranational banks. Also in furtherance of supporting trade, in collaboration with Iccrea BancaImpresa and, in particular, the representative office in Tunis, a trade mission was send to Tunisia to reinforce relations with that country's major banks. In addition, the Correspondent Banking unit participated in the recent opening of Iccrea BancaImpresa's representative office in Moscow, thereby taking the opportunity to meet and strengthen ties to leading counterparties in that Russia.

The effort undertaken in recent years to develop relationships has resulted in operations for confirming documentary credit, fully guaranteed by Iccrea BancaImpresa, and re-financing of letters of credit (operations in which Iccrea Banca has assumed the risk) as well as in an increase in the number of export transactions received directly from the mutual banks. More specifically, in the first half of 2014, more than 30 transactions were carried out with banks in various European, Asian and African countries.

Thanks to Iccrea Banca's higher visibility in new emerging markets, it continued to provide origination activities for trade operations proposed directly by foreign banks. Its networking activities have enabled an ever-growing number of foreign counterparties to accept the Bank as the direct counterparty in trade operations, resulting in considerable savings and improvements in service quality for the customers of the mutual banks.

The Correspondent Banking unit has acquired considerable experience in providing direct assistance to the mutual banks in finding solutions to problems arising with foreign banks and in setting up transactions with their customers. This has reinforced Iccrea Banca's role as a partner to the mutual banks in this sector.

PAYMENT SYSTEMS

Collections and payments

The Collections and Payments unit is responsible for managing products and services offered by the Bank to intermediary banks through the domestic and international payments systems, with the exception of documentary transactions relating to the import/export of goods.

In the first half of 2014, the Bank continued work on completing the SEPA Credit Transfer, Direct Debit, SEDA and Cash products to ensure the full compliance of procedures with developments in national and international standards. Although there were some start-up problems, Iccrea has ensured that the migration to the SEPA SDD and SCT systems will be completed so that the participating banks will meet the February 1, 2014 end date established in the regulations. Although the end date will remain February 1, 2014, the competent authorities recommended in January 2014 that, due to issues that could arise during migration, banks maintain a dual system until August 1, 2014.

The procedures for major customers enabled a major customer (Eni), to settle its SDD standard SEPA cash flows, ensuring a smooth migration.

All this activity is aimed at achieving the following objectives on behalf of the mutual banks:

- to implement the exchange and settlement of collections/payments from/to EU and non-EU banks;
- to minimize the costs that the individual mutual banks would incur to conduct these transactions at the operational level (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.)

The pricing policy was fully implemented with regard to the mutual banks with a view to:

- reducing the costs for the participating banks and enabling them to effectively market products with a low cost/income ratio to their customers;
- minimizing the costs (efficiency enhancement) of the activities of the mutual banks and of Iccrea Banca;
- leverage the role and nature of the mutual banking circuit where allowed by domestic regulations, both in terms of fees and commissions (e.g. no fees charged on these transactions) and with the goal of making transfers and settlements even faster.

In this evolving environment, actions were completed in the various payment system sectors and the products are now being utilized by the mutual banks

- electronic invoicing and dematerialization in order to enable the customers of the mutual banks to reduce the costs connected with the handling/storing of hard-copy invoices, sending them to recipients (by various means such as corporate interbank banking, the postal system and certified e-mail). New cashier's report envelope and contracts products were added;
- E-billing and payments to government entities

Furthermore, we are close to finalizing agreements regarding the project to enable agreements with major customers for collections on secured transactions in respect of customers of the mutual banks, implementing an internal value-added circuit within the mutual bank industry that will lead to the Group being viewed as a single entity.

CAIS Applications

The Standardized Interbank Application Center (CAIS) unit is responsible for promoting and developing activities associated with interbank application center operations and ACH SEPA compliance activities.

The activities carried out during the period included:

- Updating the SIA-Swift-ACH-EBA-EPC tables following mergers/incorporations/activations of mutual banks and banks served indirectly by the Bank;
- Modification of the procedures for handling SWIFT data tables (Bank Directory and IBAN Plus) following the revision of these tables by Swift Ref and maintaining the previous record for STDs;
- Activation of the Standard Swift 20022 XML format for fund operations using the SAA application and HIBOX interface for trading with Anè;
- launch of the project for internalizing the Swift Alliance Gateway (SAG) process and settlement channels from ICBPI;
- start of testing of SAG;
- completion of testing of Iccrea Banca's SAG for Target 2 Interact;
- beginning of testing of the SEPA payment hubs on the ACH ICBPI-ICCREA and EBA interfaces;
- replacement of the Safewatch application with Pythagoras to conduct the controls required under the current anti-money laundering and anti-terrorism legislation;
- signing of agreement for implementation of Swift TSU module for the exchange of messages in respect to Bank Payment Obligation (BPO) connected with supply chain operations;
- installation of Connector for T2S under the Target 2 Securities project in which Iccrea Banca will serve as digital signal processor (DSP);
- implementation of automated handling of SEDA alignments rejected by ACH;
- creation of interfaces and charts explaining the provisions of SEDA for business customers;
- beginning of testing of the new SEDA clearing mechanism with ACH;
- beginning of testing of the remuneration model for SEDA;
- launch of the project for re-internalizing the Access Point Manager for corporate interbank banking;
- start-up of the CBILL service for the payment of bills.

Because of important structural changes in the competitive environment in Italy in the context of services for the control and transmission of information regarding payment systems, the applications center and ACH functions are gradually converging towards functions with a European scope, which require closer standardization with a volume-based business philosophy while the functions of a payments system provider require ever-greater customization to satisfy the customer target.

In this context, an especially important activity among all those related to the transmission and control of payment orders was careful, close control of functions for the banking business.

With this in mind, the Bank undertook projects for re-internalizing the SWIFT Alliance Gateway (SAG) and the Access Point Manager for corporate interbank banking network. Work also began on the CBILL project (for internet banking for payment of utility bills and other amounts owed to local and central government entities, which may also accomplished through the connection with the Agency for a Digital Italy) and SEDA (for implementation of functions using a new application dedicated to remunerating the service).

E-Bank

In the first half of 2014, growth continued on both the issuing side, with 3.0 million cards in operation and approximately €14.6 billion in transaction value and on the POS and ATM acquiring side, with more than 130,000 PagoBancomat POSs, around 4,500 active ATMs and about €17.2 billion in transaction value.

Regarding the issuing sector, all three segments (debit, prepaid, and credit) recorded substantial increases that can be summarized at June 30, 2014 as follows:

- operational debit cards reached 1.95 million compared with 1.83 million in June 2013, an increase of 6.8%;
- the stock of operational credit cards increased by 5.6%, going from 665,000 cards at June 2013 to 702,000 cards at June 30, 2014;
- active prepaid cards went from 307,000 at June 2013 to 380,000 at June 30, 2014, an increase of 23.3%.

Volume growth was also posted in the acquiring segment, reaching €17.2 billion in total transaction value in first half of 2014 (of which €12.9 billion on the PagoBANCOMAT/BANCOMAT circuit and €4.3 billion on international circuits), compared with €16.7 billion in the first half of 2013, an increase of 2.4%.

During the first six months of 2014, a variety of projects were completed, some of which had already been begun in 2013:

- the BySmart project for mobile remote payments, which was developed in collaboration with the Movincom Consortium, is currently being offered in Emilia Romagna. It enables all CartaBCC cardholders to purchase services using their smartphones;
- Scontiriservati.it is an e-commerce platform reserved for the mutual bank system. By logging onto www.scontiriservati.it, holders of CartaBCC credit cards and pre-paid cards may take advantage of dedicated promotions, with discounts ranging from 50% to 70%;
- the multi-channel platform that enables the mutual banks to offer the payment and e-money services listed below through four different channels (ATM WEB/HomeBanking/virtual teller services/CartaBCC cardholder portal) to their customers: telephone top-ups (TIM, Vodafone, WIND, H3G, Tiscali, Coop Voce, Poste Mobile), Mediaset account top-ups, CartaBCC Tasca and CartaBCC Tasca Conto pre-paid card reloads, RAI public television fees, ACI Vehicle License Fee and postal payment slips.
- The ATM WEB/Multi-functional system, which, by upgrading and/or replacing the ATMs owned by the mutual banks with higher performance, more secure hardware and software, will enable all customers (including other banks) that use a mutual bank ATM to make all type of payments possible through the multi-channel platform;
- Making new co-branded issuing products available:
  - Carta Food: a revolving credit card targeted at families to be used to purchase daily groceries, without sacrificing food quality. Thanks to a 5% interest rate, the grocery bill can be paid in installments, thereby permitting greater flexibility in managing household cash flow (e.g.: managing peak spending periods corresponding to holidays, etc.);
  - Carta TascaConto FIDAL (Italian Athletics Federation): while maintaining all the innovative characteristics of the standard TascaConto card, this card offers even more exclusive benefits and discounts in the world of sports (discounts available through the FIDAL e-commerce portal).

Efforts also continued in various areas to develop new products that are expected to be launched in the second half of 2014 and early 2015:

- the transfer of ownership of contracts with Cartasì merchants to the acquirer Iccrea will be completed by the end of 2014. At present, 84,500 merchants have been switched over, corresponding to 80% of the total of 106,000. In addition, Iccrea's new process for authorizing merchants will be activated on the Moneynet and CartaSì POS operator terminals, enabling the mutual banks that make use of these merchants to operate in an integrated manner;

- in order to assist the mutual banks in managing off-premise sale efforts and given the regulatory environment that is strongly driving the use of POS/e-money, a partnership to promote a "commercial push" for acquiring new customers will be launched in the final quarter of 2014. The proposed model will address the need for discontinuity through incremental volumes/profitability, without, however, diminishing the primary role that the mutual banks play vis-a-vis their customers;
- in early 2014, in-house direct issuing will be launched within Iccrea on the new platform for the first set of BIN MasterCard products;
- the ACS Project to enhance fraud protection regarding the online use of pre-paid and credit cards: the solution will make it possible to monitor and take action in real time to authorize or deny authorization for e-commerce transactions, improving the user experience for the cardholder, who will no longer need to use the 3D Secure code to make purchases.

INSTITUTIONAL SERVICES

Continuing the work undertaken in 2013, in the first half of 2014 the Institutional Services unit's operations were focused on implementing measures to achieve Excellence under the Lean Six Sigma system, with a view to optimizing the cost-to-delivery of services and raise quality levels. Efforts continued on expanding the range of products, which would also increase the number of external customers thereby providing diversification from the mutual bank network.

More specifically, Iccrea Banca's Securities Services product is focused on offering customers, on the one hand, a single custodian, as a partner capable of delivering the entire value chain of securities administrative and settlement services; and on the other, on providing a high degree of flexibility in service delivery so that it can also handle non-standardized models, customizing products and services based upon customer needs.

The most important projects concerned the European Market Infrastructure Regulation (EMIR) governing derivatives, the ECB's introduction of the new European system of securities settlement (Target2 Securities), and the Group project to rationalize our custodian bank activities.

Using the portal through which mutual banks have access all of the services provided by Iccrea Banca concerning EMIR compliance connected with derivative contracts, starting from February the service for reporting derivatives trades to Regis-TR European Trade Repository was launched in response to the introduction of related regulatory requirements and the measurement of capital requirements began.

With regard to the Target2 Securities project, the new infrastructure for the settlement of securities transactions currently being launched by the ECB along with the European System of Central Banks will be rolled out in 2015. The Iccrea Bank formally notified the Eurosystem of its desire to participate in the new settlement system as a direct participant in the same manner as the leading international players in securities settlement and custody. This decision places the Bank among the top 30 banks in Europe and among the top 3 in Italy that have opted for this approach. The purpose of this decision is to strengthen the Bank's central role in the markets and in the mutual bank network and to mitigate the impact, in terms of organization and costs, on the mutual banking system as a whole. Therefore, the unit formed the working group responsible for implementing the project with the involvement of the entire company structure, including the communication and marketing unit, through which a system for informing and updating the mutual banks was also set up.

Under the strategic policies established by the Parent Company, once the process of rationalizing the organizational and operational structures of the custodian bank between the Banking Group companies was completed, the process of negotiating the sale of the business to Istituto Centrale delle Banche Popolari Italiane (ICBPI) began. In April, the framework agreement for the transfer of the custodian bank operation to ICBPI was signed. The transaction is expected to be completed by the end of September 2014.

The process of enhancing the efficiency and rationalizing information providers for the securities database continued in an effort to improve and strengthen the quality of data produced and to optimize the associated costs.

The process of enhancing the dialogue between Iccrea Banca and the mutual banks continued with the implementation of the WebAmmTit platform. This will improve the acquisition and processing of information, resulting in more streamlined operations and greater containment of operational risks with a view to continually upgrading the level of service offered by the Bank.

As regards the support provided to mutual banks in the distribution of collective investment undertakings, the Fund Operation unit took an active part in ABI's group pilot program on standardizing messaging, beginning to implement the procedures for adopting the new system standards in 2014.

Ancillary services and finance database management

The Ancillary Services and Finance Database Management unit provides support for the mutual banks' activities with the following services:

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data;
- the management of administrative activities relating to securities held in custody;
- administrative support for activities connected with the management of the "collateral pool" mechanism, which, by facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk, generated a significant increase in the financial instruments held in custody. This activity allowed the mutual bank system to activate all the emergency measures put in place by government to counter the financial and economic crisis, making a significant contribution to securing the mutual bank system;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at giving them the liquidity conditions provided for under Consob regulations. At June 30, 2014, there with 85 mutual banks, with a total of 1,424 issues listed;
- the issuers service, which offers administrative support for mutual bank issues;
- There are now over 100,000 financial instruments in the securities database, some 18,000 of which have balances;
- the management of activities connected with the distribution of investment funds, particularly regarding the activities of the payment entity and the Italian offering entity (Bank of Italy regulation of May 8, 2012, the Issuers Regulation, and the Intermediaries Regulation) for foreign funds, the implementation and the management of the FINV platform to support the distribution of units in collective investment undertakings, covered by the BCC Risparmio & Previdenza offering system, the operations of agent banks (S.T. circular 59/2011) and clearing, order routing and custody activities relating to the foreign fund operations of institutional customers. The results achieved in the first half of 2014 confirmed the positive trend seen in recent years, with the number of affiliated companies rising to 18, and an increase in volumes of 30% in the retail segment, with the institutional segment remaining stable, and with assets under administration of €1,300,000,000 for retail customers, and around €500,000,000 for institutional customers;
- the management of the pricing service for financial instruments, with focus on issues by the mutual banks;
- the services concerning compliance with transparency and the monitoring of possible market abuse for which, at

June 30, 2014, 165 mutual banks had already subscribed to the Transaction Reporting service and 135 mutual banks to the MAD service;
- during the first half of the year, we began reporting derivatives transactions to Regis-TR European Trade Repository. The Group companies and 166 mutual banks appointed Iccrea Banca to report the trades. A total of about 7,300 transactions were reported to Regis-TR.

During the period, the unit undertook the measures required to comply with the procedures related to the introduction of the United States' Foreign Account Tax Compliance Act (FATCA) and to the revised tax rates for financial instruments in effect starting from July 2014.

Custodian Bank

The Bank served as a custodian bank for asset management operations, for both the banking group companies and for other asset management companies, safeguarding the interests of investment fund subscribers and pension fund participants. The Bank provided asset custody, administration and control services in accordance with the law, regulations and instructions of the supervisory bodies of the managed funds, respectively from:

- in the securities investment funds segment: BCC Risparmio & Previdenza and Intermonte BCC Private Equity;
- in the pensions segment: the national pension fund of the mutual banks, BCC Risparmio & Previdenza, and Bancassurance Popolari;
- in the real estate investment segment: Beni Stabili Gestioni, Investire Immobiliare SGR, Numeria SGR and Polis Fondi SGR.

The first half of the year confirmed the significant recovery in asset management funding through collective investment undertakings that had begun in 2013. This development also involved the Group's asset management firm, BCC Risparmio & Previdenza, whose assets under management increased considerably, mainly due to the placement of funds paying a coupon, arriving at about €3.250 billion at June 30, 2014.

As to the real estate investment funds, the good quality of the funds held in the portfolio of our client asset management firms made it possible for the assets under management to hold their value.

Alongside its normal control activities, during the period the Custodian Bank unit was involved in performing the steps necessary for its transfer to ICBPI, which will be completed by the end of the third quarter of 2014.

Back Office and Custody

The Bank's Post Trading service was designed to be a complete, integrated solution for satisfying the entire range of needs for administrative and securities settlement services, meeting the needs of the mutual banks.

During the period the Back Office and Custody unit finished implementing projects to achieve compliance with the EMIR rules for OTC derivatives. Starting in January, we began the analysis and implementation of the procedures that will enable Iccrea Banca to participate in the European Central Bank's securities settlement platform, Target2 Securities, as a participant with direct access. In developing this important project we intend to pursue solutions that can consolidate and strengthen the role of Iccrea Banca as hub for services between the market and the mutual banks, allowing the mutual banks to guarantee business continuity while at the same time limiting the organizational and financial impact of compliance.

At June 30, 2014, around €138 billion worth of securities were held in custody and administration.

CENTRAL SERVICES

Human Resources and Organization

In 2014, training involved both developing managerial and aptitude support programs and ensuing appropriate human resource specialization through a major specialized technical training program in line with the evolution of company and Group strategic policies, aligning this action with the urgent need to quickly and comprehensively update technical skills.

Around 12,180 hours (or 1,523 days) of training were delivered in the first half of 2014, an average of about 17 hours per employee, with all employees being targeted by these training efforts.

Use of internal mobility remained high, supported by classroom and on-the-job training, to meet the need for new skilled employees in the various business areas, confirming the desire of the Bank and the Group to develop internal human capital. Internal job rotation affected 30 employees.

As regards developments in the workforce, at June 30, 2014 there were 745 employees, broken down by category as follows:

2.4% Executives;
16.6% Senior Managers;
29.3% Junior Managers;
35.2% Senior Professionals;
16.5% Junior Professionals.

On the cost front, we continued to enhance the governance, monitoring and optimization of the flexible personnel cost base through specific interventions aimed at carefully managing costs related to overtime, to the planning and use of vacation time, and to business travel. This enabled us to continue to pursue our aim of cutting costs through cost-containment measures instituted in previous years. More specifically, as compared with June 30, 2013, we were able, as of June 30, 2014, to reduce overtime by 6%, the amount of unused vacation time from prior years by 59% and the costs of business and other travel by 21%.

With regard to the provisions of Legislative Decree 81/08, multimedia and classroom training continued to be provided to new employees and around 74 medical check-ups were arranged for employees subject to health screening since their jobs involve the use of video terminals. In addition, during the period lessons with three Workers' Health and Safety Representatives were held, providing the training required by applicable regulations.

On the business continuity front, we performed ongoing maintenance for the HRRP business continuity system, including updating of the list of contacts in response to changes in the workforce of the units involved. Testing also began on using the secondary site, even in the absence of a crisis situation.

As regards organization, the first half of 2014 was characterized by the continuation of organizational reforms prompted by compliance with the guidelines and policies adopted by the Parent Company to enhance efficiency and rationalize the main operational and control areas, all within the context of the operational and organizational procedures set out in the Bank's Service Model.

As to measures involving the organizational structure, the major developments included:

- formation of the "Fund Administration Services" unit within the Custodian Bank unit following the receipt of authorization from the Bank of Italy, to perform the calculation of the holdings in investment funds and pension funds;
- completion of the revision of the Administration and Tax areas in response to implementation of the Group's new governance model. This called for a hierarchical and/or functional repositioning of the Accounting & Financial Reporting, Taxes, and Statistical Reporting units, as well as the introduction of specific functional reporting streams to the sister units of the parent company;
- formation of the Information Security unit, which is responsible for both setting information security policies and monitoring the risks associated with information security, in addition to carry out the duties of "Chief Information Security Officer" (CISO), a position that is being eliminated.

Furthermore, in consideration of the strategic changes involving the electronic money segment of the Bank (projects to in-source the Issuing and Acquiring segments and new initiatives aimed at innovative e-payment services), a special organizational analysis was performed in order to propose an overhaul to the current organizational structure of the entire E-Bank unit.

Finally, measures were enacted to continually enhance the efficiency of operational processes and rationalize them in order to maintain consistency with the organizational changes that occurred, as well as to keep them compliant with changes in external industry regulations. The main areas affected were: Lending, Collections & Payments, Finance, IT, Sales, Communication, Risk Monitoring and Management and Corporate.

In addition, in the follow up to the major investment that the Bank made in the pursuit of excellence, the first half of 2014 saw the continuation of the Lean Six Sigma Program (continuous-improvement methodology), which has been in the test phase since late 2011 and was pursued more extensively throughout 2013.

A new organizational unit denominated "Continuous Improvement for Excellence" was established within the Human Resources and Organization area to provide a structured approach to these initiatives. The establishment of this new organizational unit is intended to give the Bank and the Group a true center of excellence to introduce and disseminate methodologies inspired by the culture of continuous improvement throughout the Iccrea Banking Group and simultaneously promote the associated improvement and change measures.

Business intelligence

Business Intelligence is responsible for the integrated analysis of qualitative and quantitative information on customers and for proposing financial actions and solutions to optimize the management of risk-return profiles. It monitors the markets and the competition, handling the development and/or updating of products and services to enhance the product line. It also develops innovative financial instruments, in line with the needs of the mutual banks.

The unit is responsible for marketing the products/services offered by the Bank in order to create value for Iccrea Banca, constantly improving its capacity to serve its customers by anticipating their needs and strengthening its market efforts.

It provides advice to the mutual banks and other banks on advanced financial management issues, including the theoretical estimation of the economic value of ordinary and complex financial instruments, in addition to the associated risk profiles, and offers consulting on investments.

The Business Intelligence area is composed of the following units: ALM and Consulting, Financial Information, Marketing and Financial Solutions.

ALM Unit

The ALM and Consulting unit is responsible for supporting Business Intelligence in analyzing the operational balance of the mutual banks and in identifying their needs for financial solutions and products. In the first half of 2014, the following further actions, beyond those implemented in previous years, were undertaken:

- upgrading of the analysis and reporting systems to bring them into compliance with the regulatory changes connected with the introduction of the new banking supervision rules (Basel 3);
- integration of tools into the current analysis system for assisting the mutual banks in meeting the new internal controls system requirements;
- development and integration of ALM and MRGFI applications so that they can be effectively used in supporting the mutual banks.

Further, work continued on developing the operational monitoring unit in order to optimize support and analysis activities for the Lending and Risk Management units of Iccrea Holding.

Relationships with technical outsourcers were strengthened and efforts were made for forge new relationships with federations/mutual banks. In this regard, the decision by Federazione Lombarda to sign up for the services of the ALM and Consulting unit was particularly important.

At June 2014, those taking advantage of the ALM and Consulting unit were as follows:

- consulting services:
  - 19 mutual banks with advanced contracts;
  - 6 federations, corresponding to 82 mutual banks;
- ALM services
  - 179 mutual banks with ALM contracts.

Financial Information Unit

The primary added value generated by the Financial Information unit for the mutual banks is its daily "Market Trends" publication of research on investments, which can be accessed via the Infofin intranet portal. It is directed at finance managers to support their decision making in the Bank's investment activities and at the consultants of the mutual banks to help them in providing advice on building investment portfolios that reflect the risk profile and objectives of their customers.

It analyzes the indices representing the various asset classes that can be used to build the investment portfolios, such as government and European and international corporate bonds, global stocks (Euro area, USA, Asia and emerging markets), REITs, which offer indirect exposure to the global real estate market, general commodities indices and the leading precious metal indices.

The Financial Information unit is also responsible for supporting the GRIs/GRICs and the other Business Intelligence and Finance Units in studying global financial market trends, as well as helping the mutual banks by providing operational guidance upon request.

Every quarter, joint presentations are held with BCC Risparmio e Previdenza at the offices of the Federazione Lombarda concerning trends in the global financial markets and the outlook for the immediate future. The head of the Financial Information unit, a member of AIAF and SIAT, also conducts lectures on issues involving the technical analysis of financial instruments and strategic and tactical asset allocation as part of the professional training courses arranged by Accademia BCC and the individual mutual banks.

Marketing Unit

The Marketing unit is responsible for enhancing the line of products that Iccrea Banca offers its customers by analyzing and anticipating their needs and by constantly monitoring the market through Business Intelligence activity. The Marketing unit supports other Iccrea Banca units in developing and/or upgrading products and services by conducting market analysis and preparing all the related marketing and communications.

After a 2013 in which the Marketing unit was designated as a partner of the different units of Iccrea Banca in determining product and service support and promotional activities, 2014 has been a year for consolidating joint planning processes and activities.

In December 2013, the Marketing unit, acting on the basis of the path followed in previous years, prepared the 2014 Plan for implementing the Marketing Framework, which serves as the basis for a complete and consistent value proposition to the mutual banks through joint planning of activities and objectives with the Bank's individual units.

Market analysis was standardized. This activity underlies the dataset of the *Economic Outlook*, which is a historic/forecasting banking and macroeconomic report, broken down at the national and regional levels, that focuses on the mutual bank system.

In parallel, in order to develop a comprehensive picture of purchasing behavior with respect to the products and services used by Iccrea Banca customers. Work continued on developing the Market Dashboard as an additional support tool for setting commercial targets.

In line with the driven management approach, which places the customer at the heart of our processes, we have completed the comprehensive mapping of the product catalogue as part of our Product Offering activity. A new coordinated campaign, "L'offerta di Iccrea Banca", comprising completely enhanced and reorganized content, will be launched in September in an easy-to-use, entirely digital format accessible through the Polaris extranet.

Also in line with the driven management approach, we continued to administer the Customer Satisfaction survey. The strategic Customer Satisfaction survey carried out in the second half of 2013 was followed by two Customer Satisfaction surveys concerning the Finance and E-money product lines. The results reveal an overall positive picture, with around 250 of the mutual banks interviewed reporting an improvement in the quality and variety of products, as well as in the areas of communication and market presence due in part to the introduction of the Institutional Relations Manager (GRI)/contact person. Iccrea Banca's role in providing support and oversight in commercial and product placement activities also featured prominently.

During the first half of the year, the Marketing unit engaged in marketing promotion activities involving the organization of campaigns for product launches, loyalty programs, sponsorships and themed events, specifically:

- launch of ScontiRiservati.it, the e-commerce portal targeted at CartaBCC cardholders;
- launch of TascaConto FIDAL, the fruit of a partnership between CartaBCC and the Italian Athletics Federation (FIDAL);
- BTP Italia;
- T2S;
- Mobile POS Solution products;
- launch of electronic invoicing and dematerialization integrating the advanced digital signature service;

As to loyalty programs, the CartaBCC&WIN contest is currently under way. Participation has been strong: in just the first twenty days since its launch, it has seen 13,318 cardholders register, 28,784 players, 55,022 site visits and 269,995 page views.

Marketing Promotion activities were further expanded with the creation of tutorials, multimedia content provided to the mutual banks to promote products through channels present at the branches and through digital channels.

A major effort to strengthen external awareness of Iccrea Banca was also deployed thanks to sponsorship arrangements with ISAL, Federparchi and FIDAL, wherein CartaBCC became the official sponsor of events such as the Italian Athletics Championships and the Golden Gala athletics meeting in Rome.

Work is still under way and, with regard to the Italian Digital Agenda, Iccrea Banca is pursuing projects that will enable the mutual banks to offer their customers products and services that address administrative requirements, on the one hand, and, on the other, to offer cutting-edge products focusing on innovation and enhancing competitiveness.

Financial Solutions Unit

The main activities performed by the Financial Solutions Unit in the first half of 2014 were as follows:

- implementing the multi-curve assessment framework based upon EONIA discounting for measuring (at the financial reporting dates) interest rate and inflation derivatives denominated in euros collateralized with market counterparties and the mutual banks;
- implementing the new pricing policy for bonds issued by Iccrea, categorized based upon seniority and the type of customer at which the bonds are targeted;
- providing methodological support for the issue of the subordinated bond by Iccrea Banca;
- providing methodological support for the mutual banks in calculating credit (CVA) and debt (DVA) value adjustments to be applied to the fair value of non-collateralized derivatives products;
- defining and implementing the methodological solution for handling demand items under the model for

measuring interest rate risk used by the mutual banks;

- assessment upon the request of the mutual banks and of the Bank's internal departments of ordinary and complex financial instruments, providing analysis of the related risk profiles;
- beginning analysis for the design and development of the model for measuring inflation-linked asset swaps on the index of consumer prices for blue and white-collar households (FOI), to be subsequently implemented in the Summit Risk Management program;
- developing quantitative analyses supporting the mutual banks on fair funding conditions, associated in particular with the issue of subordinated bonds classified as Tier 2 capital;
- consolidating the implementation of the new financial risk management tool (Summit-MRGFI), used by the mutual banks and associates in providing financial advisory services;
- supporting work leading to the adoption of agreements with the mutual banks for collateralizing assets in the form of derivatives and forward exchange rates;
- providing assistance upon the request of the mutual banks with regard to capital requirement solutions;
- consolidation of the reporting by mutual banks on the data gathered concerning counterparty risk profiles and on the estimates of the capital required to hedge the risk of default and CVA risk;
- supporting the IT functions of the Bank in implementing the new assessment processes for the mutual banks and the Iccrea Banking Group, as well as the methodologies aimed at meeting the mutual bank's risk measurement and management needs;
- non-regression testing in preparation for the Summit 5.6 migration process.

Commercial Unit

In the first half of 2014, the Institutional Relations Managers (GRI) performed the following number of activities:

Type	No. of activities
Visit	886
Contact	63
Event	27
Training	63
Promotional activity	16
Specialist activity	101
Other	63
Total	1219

Most of these related to the Finance and Electronic Money Areas.

The following promotional campaigns were carried out:

Area	No. of campaigns
Finance	6
E-money	1
Collections & Payments	1
Business Intelligence	0
Institutional services	0
Support services	0
Web area	0
Lending	0
Other	0
Total	8

The new FT CONSOLE trading platform was also launched.

The Customer Relationship Management (CRM) tool is nearly completed and the work being performed by our unit will lay the foundation for the Group CRM.

Considerable support was provided by the commercial network to solve problems related to the migration of the POS systems and the new procedure for handling credit transfers.

Strategic Planning

The Management Control and Planning unit is responsible for supporting top management and the Bank's decision-making bodies in performing their duties with a view to maximizing stakeholder value (shareholders, customers, employees).

In the first half of 2014, work continued on consolidating the centralized management database, scalable at the Group level, into which information is entered in a standardized manner into the management control system, the ALM and the CRM, was completed. The system centralizes management, commercial and risk information, with a special emphasis on the management of counterparty data, which can also be used for geomarketing analysis.

All the information has also been made accessible (including in mobile format) through the business intelligence platform used by the Iccrea Banking Group, offering considerable potential for possible uses in joint planning with the mutual banks.

Information Systems

During the period, the Bank's information system was developed in order to support the growth of business of the Bank and the Group.

In the first half of 2014, the new data center to which the data processing infrastructure of BCC Sistemi Informatici, now an integral part of the Iccrea Banking Group, will gradually migrate was up and running. Accordingly, the secondary site and the systems for interconnecting with the primary data center were made compliant. The integration of the data centers of Iccrea Banca and BCC Sistemi Informatici will make it possible to implement policies for rationalizing the IT costs of the mutual banks and to develop high added-value applications/services that exploit the integration of the entire "chain" composed of the various Group companies and local banks that currently receive automation services from BCC Sistemi Informatici.

The effort to develop applications in all business areas, from branch services for retail customers (successfully transferred to Banca Sviluppo) to electronic money, with the activation of new fastbank payments (ACI, RAI, utility bills, etc.) and with the process of reinternalizing merchants, to retail payments for the completion of the migration to SEPA standards and the Finance front-middle and back office, was similarly intense.

Numerous initiatives for reviewing and implementing IT procedures were carried out based upon the guidelines derived from Kaizen Lean Six Sigma to rationalize and enhance the efficiency of business processes.

Our communication tools, Polaris first and foremost, underwent extensive improvement to bring them in line with the new strategy for information interconnection with the mutual banks.

With regard to administration and control, in the first half of the year, the new supply chain using SAP IT and involving centralized purchasing for the Group from an organizational standpoint, was launched.

The "Matrico" procedure to address operational risks was also implemented. It enables the controlled management of the regulatory framework and the consequent verification activities.

During the period, the activity performed by the Technology Officer (the "TO") on behalf of other Group companies was also important, consisting of developing the support infrastructure for the WIBI application of Iccrea BancaImpresa and completing the so-called "Tibet" procedure, which makes a variety of IT and security services available for building the web portals of the Iccrea Banking Group companies.

ISO 27001 certification of the information security management system and ISO 22301 certification of the business continuity management system were renewed.

As part of developing the Bank's role as direct issuer/acquirer of electronic money, the report of compliance with the PCI-DSS standard required by the Visa and Mastercard circuits was finally received.

Audit Department

During the first half of 2014, the Bank continued to implement the system of internal controls to ensure, with increasing effectiveness, the existence of a system of adequate, reliable, complete and functional controls. The activities undertaken demonstrate that the Bank has been involved in significant planning concerning all the main productive and support segments (especially Administration and IT). It was found necessary to ensure constant monitoring of planning activities concerning technical, organizational and change management issues in order to strengthen the effectiveness and the efficiency of the internal control system.

Internal auditing activities were conducted by Internal Audit units and the Inspection units. Certain activities related to the 2013 Audit Plan, but only completed in the first few months of 2014, were of particular importance:

- the former performed anti-money laundering checks for the electronic money segment, including an analysis of the process of placing payment cards directly through the mutual banks, checks of the process of planning and managing the Bank's product range, as well as the Bank's management control and planning processes;
- the latter inspected the payments hub in response to the system-level issues that emerged in November 2013.

With regard to the 2014 Audit Plan, the audits of the following areas are nearing completion:

- anti-money laundering, relating to the Finance, Electronic Money and Collections & Payments Areas;
- retail payment system operator;
- demand management process.

The department also performed an important advisory and support role, including action concerning:

- updating the system to bring it into compliance with the 15th update of Bank of Italy Circular no. 263 concerning the internal control system;
- the Data Quality Policy;
- advisory and participation in special company working groups, for example on the renewal of placement agreements in the electronic money area.

Specific remotely-monitored control indicators were also introduced for the Payment Systems and Finance areas. In addition, the department continued to provide structured oversight of relationships with the outsourcers handling fiduciary deposits, which are responsible for managing the cash, consistent with the evolving regulatory framework. This was also carried out for the federations and mutual banks.

The primary initiatives for remedying all audited processes that still have outstanding issues will continued to be pursued, with reporting to Board of Directors, including through the Internal Control Committee.

Operational Risks, Compliance and Anti-Money Laundering

The Operational Risks, Compliance and Anti-Money Laundering unit (hereinafter the "Compliance unit") is responsible, in accordance with guidelines established by the corresponding unit of the Parent Company, for identifying, assessing and monitoring the risk to the Bank associated with non-compliance, money laundering and terrorist financing, and for identifying the operational risks of the Bank, with a view to ensuring compliance with the law and the fair conduct of banking activities, which by their very nature are grounded in a relationship of trust.

Finally, the Compliance unit, in line with the guidelines established by top management, carried out the above initiatives while being aware of the central role that the Bank plays in relation to the services that the mutual banks/ordinary banks deliver to their customers.

Risk Management

In the first half of 2014, the Bank continued to adapt its methods and tools for managing credit, market and operational risks, both in response to developments in external regulations and in internal management and monitoring needs. The governance and organizational model for Risk Management activities, introduced in 2012, was strengthened in order to improve the effectiveness of risk management, increase the efficiency of the internal control system as a whole and respond to regulatory changes and developments in the market and in the Group's organizational, operational and corporate structures. Under the model, functional responsibility rests with the Parent Company, exercised by the Chief Risk Officer (CRO), who reports on risk management issues to top management and the Board of Directors. To manage the most significant types of financial risks, including in the Bank's capacity as the Group Finance specialist, the Financial Risks unit, which reports to the CRO, is responsible for measuring and controlling financial risks. The unit is organized into three sub-structures.

The Bank Counterparties Risk unit oversees and monitors credit risk. In the first half of 2014 it continued to analyze and report monthly on the performance of the portfolio with regard to the two main types of counterparties: banks and ordinary customers. The daily monitoring of bank counterparties continued with the production of early warning indicators and the continual updating of internal ratings for the banks with which the Bank does business (mutual banks and ordinary banks). Finally, the estimation of the risk parameters used for determining collective impairment was updated, reporting the results to the Board of Auditors and the Board of Directors. In the first half of 2014, the Bank Counterparties project was completed with the chief aims of:

- strengthening the regulatory framework for managing credit risk adopted by Iccrea Banca with the establishment of a Credit Policy and the revision of secondary regulations for the entire lending process;
- strengthening the creditworthiness assessment process, incorporating the best practices adopted by the major rating agencies, introducing forward-looking measures in the assessment process and expanding the use of electronic loan application processing (ELAP);
- establishing a process for monitoring the creditworthiness of bank counterparties consistent with the new assessment framework;
- implementing RiskSuite as the application platform to support the measurement and monitoring system.

The Market Risks unit is responsible for managing and monitoring market risks. In the first half of 2014 it continued to strengthen the support tools for these duties. Ongoing maintenance of the application procedure (RiskSuite) used to measure risk and produce monitoring reports the risk position was a key activity during the year. It enabled the Bank to accurately monitor the trading portfolio and the operation of the Bank on a daily basis. In addition, the Summit Risk Management project for the creation of a risk system that can consolidate trading book positions on a daily basis in an independent calculation environment continued in an effort to further improve risk analysis.

Within the context of ALM and liquidity risk activities, management and monitoring is performed by the ALM and Liquidity Risk unit, which in the first half of 2014 continued to monitor the equilibrium of the Bank's asset and liability structure.

With regard to liquidity risk, the unit performed daily monitoring of the "1-day" and "up to 1 month" liquidity positions at the individual and consolidated levels and all the risk indicators provided for in the system of delegated powers.

In order to comply with regulatory requirements and operational requirements, two Group policies were established, setting out the guidelines and principles for prudent management, the roles and responsibilities of company bodies and operational structures and the control processes for both the interest rate risk on the banking book and liquidity risk.

The growing financial complexity managed by the Iccrea Banking Group, particularly by Iccrea Banca in its capacity as the Group Finance specialist, has required significant development of the technical and methodological infrastructure for financial risk management and ALM, which provides essential support for decision-making processes and risk monitoring and control.

With regard to the ALM platform, maintenance and ongoing evolution of the new platform (LIRICO) continued in order to configure it in a manner consistent with the technical and functional requirements of Iccrea Banca.

The activities required to prepare the disclosures on the various types of risk to be provided to the ratings agencies for the annual review of the Bank's rating were carried out, as were those associated with preparing the reports to the supervisory authorities for the purposes of Pillar II and Pillar III compliance at the consolidated level.

Administration

In addition to providing support and administrative cooperation to the mutual banks, the federations and the Group companies, the Administration unit was heavily involved during the first half of 2014 in the pursuit of various projects and activities, which are briefly discussed below:

- Supply chain: roll-out of the new SAP procedure in line with the Parent Company's objective to migrate all the Banking Group companies to a single legacy system.
- New international accounting standards: the amendments made to a number of existing standards and the reinterpretation of applicable accounting policies necessarily led to the formation of a special working group within the Banking Group. More specifically, the working group led the project regarding IFRS 13 and supported the Parent Company in drafting a Group Fair Value Policy;
- The ECB's European Comprehensive Assessment: to proactively manage the entire process, the Banking Group initiated a process involving the companies with credit and financial exposure. More specifically, the unit provided specific support to the Parent Company with regard to preparing the reports required under the Asset Quality Review.
- Effectiveness Test Service: tests are performed for the banking group companies as well as 89 mutual banks, with approximately 1,540 tests carried out.
- Ongoing support to the mutual banks in testing liquidity positions, monitoring transactions reported in the Daily Settlement Account on a daily basis.

Security and Logistics

The Occupational Safety function and the Operational Areas mainly perform the following activities:

- providing support to the Occupational Health and Safety Management System Officer (OHSMSO) in monitoring relevant activities pursuant to Decree 81 /2008 (occupational health and safety). The General Manager has been assigned this role;
- for logistics, working with the Information Systems unit and the Business Operating Cycle Coordination unit in developing project guidelines that take account of context, specifically for technological support systems for Business Continuity hardware structures;
- defining physical security policies with the Chief Information Security Officer (CISO);
- preparing, updating documentation and conducting testing of the Business Continuity Plan (BCP) for the Office Recovery Plan function (ORP), in collaboration with the Business Continuity Support Manager (BCSM);
- drafting and updating documentation for which it is responsible as part of the process of obtaining of ISO 27000, ISO

22301 and PCI-DSS (electronic money) certification;

- coordinating managers pursuant to Legislative Decree 81/2008, particularly those responsible for local offices.
- retention and managing digital media containing copies of telephone calls recorded in the Finance sector and video images, in collaboration with the Compliance Unit.

5. SUBSEQUENT EVENTS

On June 5, 2014, the Governing Council of the ECB announced measures to enhance the operation of the monetary policy transmission mechanism and, on July 3, it published the guidelines on participation. More specifically, for the 2014–2016 period, it is planning a lending program to support the real economy, structured into eight operations denominated "Targeted Longer-Term Refinancing Operations – TLTROs". All the funds disbursed under these operations will have to be paid back by September 2018 and the amounts lent will be determined based upon the "eligible loans", i.e. loans made to the euro area non-financial private sector, excluding loans to households for house purchases. The ECB will allow multiple banks acting together to take part in the TLTROs, identified formally as a TLTRO Group, through the participation of member of the TLTRO Group that will serve as the "lead institution". Iccrea Banca, in its role as the central credit institution for the mutual bank industry, volunteered to serve as lead institution, therefore ensuring that all the banks that meet the ECB's requirements will have the option of participating in the refinancing operations. On July 10, 2014, the Board of Directors authorized the formation of the TLTRO Group, composed of mutual banks and a number of the Banking Group companies, making it possible to begin activities, which must be completed in August.

After conducting internal analysis, and in harmony with its corporate mission, the Bank has indicated its intention to participate in the new centralized platform for securities settlement, of Eurosystem Target 2-Securities (T2S), as a directly connected participant (DCP) starting with the first wave, with Monte Titoli acting as central securities depository (CSD). The new platform was developed to offer settlement of all types of transaction in central bank money. The main objective of the new platform is to harmonize operational practices and standardize securities settlement processes, stimulating innovation and competitiveness. The Bank has drafted the plan to prepare for implementation, drawing up the associated business plan and forming the working group responsible for overseeing the project itself.

As part of the process of rationalizing the Group's activities in accordance with the strategic policies set by the Parent Company, the Board of Directors of Iccrea Banca delineated the procedures for the transfer of the Custodian Bank unit to Istituto Centrale delle Banche Popolari Italiane. The transfer is scheduled to take place on September 26, 2014. For more information, please see the explanatory notes, Part B – Information on the balance sheet – Section 14 Non-current assets and disposal groups held for sale and associated liabilities – Item 140 of assets and Item 90 of liabilities.

6. 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 parties, as defined by CONSOB, with reference to IAS 24, in line with legislative and regulatory provisions.

Accordingly, in the first half of 2014, 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. During the year under way, there are no positions or transactions resulting from atypical or unusual transactions. Pursuant to CONSOB communications DAC/98015375 of February 27, 1998 and DEM/1025564 of April 6, 2001, the term “atypical or unusual” refers to transactions whose scale, counterparties, purpose, method of determining the transfer price or timing might raise concern about the accuracy and completeness of the disclosures in the financial statements, conflicts of interest, preservation of the integrity of the company’s financial position and protection of shareholders.

Part H – Transactions with related parties also 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.

In application of Art. 79 of CONSOB Resolution no. 11971 of May 14, 1999, as amended, a specific schedule reports equity interests held in the Bank and its subsidiaries by directors, members of the Board of Auditors, the General Manager and key management personnel, either directly or through subsidiaries, trustee companies and third parties, including those held by spouses who are not legally separated and minor children.

In addition, in the first half of 2013, 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.

On February 26, 2014, the instrument for the transfer of the Iccrea Banca business unit was executed, the effects of which were reflected in Banca Sviluppo’s income statement and balance sheet starting from April 5, 2014. The transaction involved the transfer of liabilities amounting to €32,308,293.93 represented by customer current accounts and payables due to employees and the transfer of assets of €30,812,013.12 mainly represented by amounts due from banks and amounts due from customers. As a result of the adjustment made based upon the accounting records at April 4, the transferor (Iccrea Banca) paid to the transferee (Banca Sviluppo) the difference between the value of the assets and liabilities of the business unit (equal to €1,818,801.82) and determined the definitive sale price in the amount of €322,521.01, calculated as 1% of the funding transferred at that date. The effect on Iccrea Banca’s financial statements at June 30, 2014 therefore consists of the allocation of the price received to a reserve (equal to €234 thousand, net of deferred taxes). As provided for under the applicable accounting standards, business combinations undertaken between companies under common control are not treated as the transfer of control of a business and are normally deemed to have no economic significance since they are undertaken not to realize a gain, but merely for the purpose of reorganization within the Group.

7. OUTLOOK FOR THE FULL YEAR

Although Iccrea Banca expects the macroeconomic environment to remain challenging for the banking sector and considerably affected by developments in the euro-area crisis due to the uncertainty surrounding the financial and credit markets and the heightened concern about sovereign risk, we nevertheless plan to continue our support for the mutual banks through the pursuit of the multiple initiatives to strengthen and rationalize operations undertaken in the preceding months.

In addition, work will continue on optimizing processes and leveraging our in-house human capital, which will enable the Bank to consolidate efforts to improve operational effectiveness and efficiency and achieve the excellence targets we have set ourselves.

Overall, the actions undertaken should permit the Bank to achieve satisfactory returns in line with the targets set in the 2014–2016 Business Plan.

These interim financial statements were prepared and approved on August 7, 2014 by the Board of Directors, which authorized their release as no further modification will be possible.

Rome, August 7, 2014

THE BOARD OF DIRECTORS

Financial Statements

BALANCE SHEET

	ASSETS		30/06/2014		31/12/2013
10.	Cash and cash equivalents		76,443,635		82,636,981
20.	Financial assets held for trading		444,145,249		440,380,268
30.	Financial assets at fair value through profit or loss		317,059,679		321,150,028
40.	Financial assets available for sale		4,186,314,987		3,449,427,737
50.	Financial assets held to maturity		3,584,097,810		3,755,290,236
60.	Due from banks		35,624,909,740		32,827,713,231
70.	Loans to customers		2,140,799,786		1,768,380,623
80.	Hedging derivatives		5,470,749		5,561,718
90.	Value adjustments of financial assets hedged generically (+/-)		222,103		(52,526)
100.	Equity investments		263,610,066		63,563,625
110.	Property and equipment		7,077,488		8,319,752
120.	Intangible assets		5,887,865		7,238,083
130.	Tax assets		7,580,390		17,014,075
	a) current	-		8,785,205	
	b) deferred	7,580,390		8,228,870	
140.	Non-current assets and disposal groups held for sale		291,487,802		30,312,528
150.	Other assets		202,441,126		217,380,807
	TOTAL ASSETS		**47,157,548,475**		**42,994,317,166**

	LIABILITIES AND SHAREHOLDERS' EQUITY		30/06/2014		31/12/2013
10.	Due to banks		24,117,672,868		21,391,951,590
20.	Due to customers		15,797,377,316		15,259,973,629
30.	Securities issued		4,512,228,674		4,287,398,324
40.	Financial liabilities held for trading		415,175,260		391,236,397
50.	Financial liabilities at fair value through profit or		751,239,152		763,418,207
60.	Hedging derivatives		89,362,674		75,166,938
80.	Tax liabilities		32,785,157		34,461,943
	a) current	1,526,380		14,078,768	
	b) deferred	31,258,777		20,383,175	
90.	Liabilities associated with assets held for sale		292,915,278		32,905,220
100.	Other liabilities		585,846,120		207,203,150
110.	Employee termination benefits		14,112,562		13,348,350
120.	Provisions for risks and charges:		6,713,937		6,579,065
	b) other provisions	6,713,937		6,579,065	
130.	Valuation reserves		115,036,510		92,041,880
	of which: in respect of assets held for sale	-		(8,293)	
160.	Reserves		186,925,293		181,691,465
180.	Share capital		216,913,200		216,913,200
200.	Net profit (loss) for the period (+/-)		23,244,474		40,027,802
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**47,157,548,475**		**42,994,317,160**

INCOME STATEMENT

			30/06/2014		30/06/2013
10.	Interest and similar income		208,902,045		235,012,05
20.	Interest and similar expense		(175,096,664)		(197,854,072
30.	**Net interest income**		**33,805,381**		**37,157,98**
40.	Fee and commission income		181,679,275		167,258,70
50.	Fee and commission expense		(121,567,217)		(109,092,682
60.	**Net fee and commission income (expense)**		**60,112,058**		**58,166,01**
70.	Dividends and similar income		516,682		143,46
80.	Net gain (loss) on trading activities		11,094,646		12,876,35
90.	Net gain (loss) on hedging activities		(537,483)		821,66
100.	Net gain (loss) on the disposal or repurchase of:		14,972,278		27,273,21
	a) loans	83,204		(48,598)	
	b) financial assets available for sale	18,174,441		27,296,872	
	d) financial liabilities	(3,285,367)		24,945	
110.	Net gain (loss) on financial assets and liabilities designated as at fair value		(2,263,137)		(10,936,048
120.	**Gross income**		**117,700,425**		**125,502,65**
130.	Net losses/recoveries on impairment:		983,214		356,82
	a) loans	983,214		356,825	
140.	**Net income (loss) from financial operations**		**118,683,639**		**125,859,47**
150.	Administrative expenses:		(87,805,300)		(80,108,036
	a) personnel expenses	(31,680,261)		(30,974,695)	
	b) other administrative expenses	(56,125,039)		(49,133,341)	
160.	Net provisions for risks and charges		(270,527)		169,24
170.	Net adjustments of property and equipment		(1,289,109)		(1,765,599
180.	Net adjustments of intangible assets		(2,043,921)		(1,576,507
190.	Other operating expenses/income		10,012,016		9,932,58
200.	**Operating expenses**		**(81,396,841)**		**(73,348,314**
250.	**Profit (loss) before tax on continuing operations**		**37,286,798**		**52,511,16**
260.	Income tax expense from continuing operations		(14,242,743)		(19,888,464
270.	**Profit (loss) after tax on continuing operations**		**23,044,055**		**32,622,69**
280.	Profit (loss) after tax of disposal groups held for sale		200,419		
290.	**Net profit (loss) for the period**		**23,244,474**		**32,622,69**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2014	30/06/2013
10.	**Net profit (loss) for the period**	**23,244,474**	**32,622,699**
	Other comprehensive income net of taxes not recyclable to income statement		
40.	Defined-benefit plans	(459,676)	(243,019)
	Other comprehensive income net of taxes recyclable to income statement		
90.	Cash flow hedges	(325,651)	759,046
100.	Financial assets available for sale	23,779,957	(17,759,149)
130.	**Total other comprehensive income net of taxes**	**22,994,630**	**(17,243,122)**
140.	**Comprehensive income (Item 10+130)**	**46,239,104**	**15,379,577**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT JUNE 30, 2014

	AS AT 31/12/2013	CHANGE IN OPENING BALANCE	AS AT 1/1/2014	ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD		CHANGES IN THE PERIOD								
							EQUITY TRANSACTIONS							
				RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGE IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME AT 30/06/2014	SHAREHOLDERS' EQUITY AS AT 30/06/2014
Share capital:														
a) ordinary shares	216,913,200		216,913,200	-			-	-						216,913,200
b) other shares	-		-	-			-	-						-
Share premium reserve	-		-	-			-							-
Reserves:														
a) earnings	99,922,929	-	99,922,929	5,000,000		-	-	-	-					104,922,929
b) other	81,768,536	-	81,768,536	-		233,828	-		-		-	-		82,002,364
Valuation reserves	92,041,880	-	92,041,880			-							**22,994,630**	115,036,510
Equity instruments	-		-							-				-
Treasury shares	-		-				-	-						-
Net profit (loss) for the year	**40,027,802**	**-**	**40,027,802**	**(5,000,000)**	**(35,027,802)**								**23,244,474**	**23,244,474**
Total shareholders' equity	**530,674,347**	**-**	**530,674,347**		**(35,027,802)**	**233,828**	**-**	**-**	**-**	**-**	**-**	**-**	**46,239,104**	**542,119,477**

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the payment made on capital account by the Parent Company, Iccrea Holding, 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 AS AT JUNE 30, 2013

				ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD		CHANGES IN THE PERIOD								
							EQUITY TRANSACTIONS							
	AS AT 31/12/2012	CHANGE IN OPENING BALANCE	AS AT 1/1/2013	RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGE IN RESERVES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURYSHARES	STOCK OPTIONS	PURCHASE OF TREASURY SHARES	COMPREHENSIVE INCOME AT 30/06/2013	SHAREHOLDERS' EQUITY AS AT 30/06/2013
Share capital:														
a) ordinary shares	216,913,200		216,913,200	-			-	-						216,913,200
b) other shares	-		-	-			-	-						-
Share premium reserve	-		-	-			-							-
Reserves:														
a) earnings	86,922,929	-	86,922,929	13,000,000		-	-	-	-					99,922,929
b) other	81,606,839	-	81,606,839	-		-	-		-		-	-		81,606,839
Valuation reserves	69,056,182	(987,509)	68,068,673			-							(17,243,121)	50,825,552
Equity instruments	-		-							-				-
Treasury shares	-		-				-	-						-
Net profit (loss) for the year	**48,376,340**	**-**	**48,376,340**	**(13,000,000)**	**(35,376,340)**								**32,622,699**	**32,622,699**
Total shareholders' equity	**502,875,490**	**(987,509)**	**501,887,981**		**(35,376,340)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,379,578**	**481,891,219**

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the payment made on capital account by the Parent Company, Iccrea Holding, and the merger of BCC Multimedia.

The amount reported under "change in opening balance" represents the impact of the application of the new IAS 19 endorsed with Regulation no. 475/2012.

STATEMENT OF CASHFLOWS (INDIRECT METHOD)

	30/06/2014	31/12/2013	30/06/2013
A. OPERATING ACTIVITIES			
1. Operations	**104,729,700**	**178,294,986**	***187,046,02***
- net profit (loss) for the period (+/-)	23,244,474	40,027,802	*32,622,69*
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	30,788,458	24,980,259	*33,744,46*
- gains (losses) on hedging activities (-/+)	537,483	4,233,580	*(821,664*
- net losses/recoveries on impairment (+/-)	(983,214)	1,125,273	*301,12*
- net adjustments of property and equipment and intangible assets(+/-)	3,382,881	7,453,809	*3,212,01*
- net provisions for risks and charges and other costs/revenues (+/-)	1,078,208	730,806	*1,829,19*
- taxes, duties and tax credits to be settled (+/-)	12,589,728	(659,769)	*19,717,54*
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-	
- other adjustments (+/-)	34,091,683	100,403,226	*96,440,64*
2. Net cash flows from/used in financial assets	**(4,147,453,892)**	**(6,132,686,027)**	***(7,204,384,53***
- financial assets held for trading	(32,576,570)	285,286,044	*173,342,82*
- financial assets at fair value through profit or loss	4,895,557	4,518,196	*7,934,09*
- financial assets available for sale	(666,079,575)	(460,196,070)	*(796,292,11*
- due from banks: repayable on demand	(196,368,477)	241,416,867	*(1,173,311,58*
- due from banks: other	(2,889,215,359)	(6,032,207,143)	*(4,920,270,08*
- loans to customers	(374,401,621)	(105,239,312)	*(432,132,03*
- other assets	6,292,151	(66,264,609)	*(63,655,634*
3. Net cash flows from/used in financial liabilities	**4,079,580,481**	**6,748,837,675**	***8,083,109,58***
- due to banks: repayable on demand	50,510,927	(4,743,905,716)	*(3,660,051,82*
- due to banks: other	2,666,266,023	4,919,950,590	*3,281,930,61*
- due to customers	796,256,977	5,997,953,925	*8,039,343,34*
- securities issued	187,582,926	925,696,522	*634,157,76*
- financial liabilities held for trading	23,938,408	(249,211,099)	*(167,750,95*
- financial liabilities at fair value through profit or loss	(15,753,168)	(4,660,142)	*(827,08*
- other liabilities	370,778,389	(96,986,405)	*(43,692,28*
Net cash flows from/used in operating activities (A)	**36,856,289**	**794,446,634**	***1,065,771,08***
B. INVESTING ACTIVITIES			
1. Cash flows from	**193,105,173**	**1,165,324,493**	***132,79***
- sales of equity investments	-	-	
- dividends on equity investments	-	-	
- sales of financial assets held to maturity	192,581,180	1,153,819,400	
- sales of property and equipment	523,993	11,505,093	*132,79*
- sales of intangible assets	-	-	
- sales of subsidiaries and business units	-	-	
2. Cash flows used in	**(201,360,834)**	**(1,952,573,838)**	***(1,060,632,85***
- purchases of equity investments	(200,046,441)	(12,300,875)	
- purchases of financial assets held to maturity	-	(1,931,531,756)	*(1,056,463,58*
- purchases of property and equipment	(620,689)	(2,683,384)	*(1,880,72*
- purchases of intangible assets	(693,704)	(6,057,823)	*(2,288,55*
- purchases of subsidiaries and business units	-	-	
Net cash flows from/used in investing activities (B)	**(8,255,661)**	**(787,249,345)**	***(1,060,500,05***
C. FINANCING ACTIVITIES			
	-	-	

- issues/purchases of own shares	-	-	
- issues/purchases of equity instruments	233,828	161,697	
- dividend distribution and other	(35,027,802)	(35,376,340)	*(35,376,34*
Net cash flows from/used in financing activities C(+/-)	**(34,793,974)**	**(35,214,643)**	***(35,376,34***
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**(6,193,346)**	**(28,017,354)**	***(30,105,31***

RECONCILIATION

	30/06/2014	31/12/2013	30/06/2013
Cash and cash equivalents at beginning of period (E)	82,636,981	110,654,336	110,654,336
Net increase/decrease in cash and cash equivalents (D)	(6,193,346)	(28,017,354)	(30,105,315)
Cash and cash equivalents: net foreign exchange difference (F)	-	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	76,443,635	82,636,982	80,549,021

Explanatory notes to the Financial Statements

CONTENTS

Liabilities

PART C – INFORMATION ON THE INCOME STATEMENT

Part - A

Accounting policies

PART A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

This section sets out the accounting policies adopted in preparing the interim financial statements at June 30, 2014. 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 interim 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.

The interim financial statements are compliant with the provisions of IAS 34 and have been prepared 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 – 2nd update of January 21, 2014 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005.

Iccrea BancaImpresa has elected the option to prepare its half-year financial report in a condensed version rather than in the full version envisaged for the annual financial statements.

The IASs/IFRSs applied in preparing the financial statements were those in force at June 30, 2014 (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 as from January 1, 2014:

ENDORSEMENT REGULATIO	IAS/IFRS AND SHORT DESCRIPTION
1254/2012	**IFRS 10 Consolidated financial statements** - The new standard establishes the criteria for the preparation and presentation of the consolidated financial statements. It defines new concepts of control, replacing those set out in IAS 27 and SIC 12
1254/2012	**IFRS 11 Joint arrangements** - Establishes principles for the accounting treatment of joint arrangements, replacing IAS 31 and SIC 13
1254/2012	**IFRS 12 Disclosure of interests in other entities** - The standard establishes the disclosures that must be provided concerning equity investments and, among others, SPVs ("structured entities"). The objective is to provide disclosures on the nature of the risks associated with interests in other entities and the impact on the financial position, performance and cash flows
1254/2012	**IAS 27 Separate financial statements** - As a consequence of the introduction of IFRS 10 and IFRS 12, the standard limits its scope to defining criteria for the treatment in the separate financial statements of subsidiaries, associates and joint ventures
1254/2012	**IAS 28 Investments in associates and joint ventures** - As a consequence of the introduction of IFRS 11 and IFRS 12 the standard was renamed "Investments in associates and joint ventures", setting out the accounting treatment of such entities
1256/2012	**IAS 32 Financial instruments: Presentation** - Amendments of IAS 32 - Offsetting financial assets and financial liabilities: they establish procedures and criteria for offsetting financial assets and liabilities and their presentation in the financial statements
313/2013	**IFRS 10 Consolidated financial statements - IFRS 11 Joint arrangements - IFRS 12 Disclosures of interests in other entities –** On June 28, 2012, the IASB published amendments to these standards on the basis of the proposals set out in Exposure Draft 2011/7 - Transition Guidance of December 2011. The objective is to clarify the transitional provisions governing the application of IFRS 10 and to limit the requirement for comparative disclosures under IFRS 10, IFRS 11 and IFRS 12 to only the previous comparative year

	IFRS 10 Consolidated financial statements
1174/2013	In October 2012, the IASB approved a number of amendments of IFRS 10, IFRS 12 and IAS 27. For IFRS 10 in particular, the amendments regarded the introduction of a definition of "investment entity" and the establishment of a requirement for investment entities to measure subsidiaries at fair value through profit or loss rather than consolidating them, with a view to better reflecting their business model.
	IFRS 12 Disclosure of interests in other entities.
1174/2013	The amendments regard the obligation to disclose specific information on the subsidiaries of the investment entities referred to above.
	IAS 27 Separate financial statements
1174/2013	The amendments regard the elimination of the option for investment entities to choose between measurement of investments in certain subsidiaries at cost or at fair value in their separate financial statements.
	IAS 36 Impairment of assets
1374/2013	The amendments seek to clarify that the disclosures to be provided concerning the recoverable value of assets when that value is based on fair value less costs of disposal only regard assets whose value is impaired.
	IAS 39 Financial instruments: recognition and measurement
1375/2013	The amendments are intended to govern situations in which a derivative designated as a hedging instrument is involved in novation with a central counterparty as a result of the introduction of a new law or regulation. Hedge accounting may continue despite the novation, a treatment that would not have been permitted without the amendment.

The application of the amendments to IFRS 10 took place in the consolidated financial statements of the Parent Company.

In addition, analytical work is under way to quantify the impact on information systems and the impact on performance and financial position of the application of IFRS 9.

Section 2: General preparation principles

The interim financial statements, which have been prepared in condensed form as permitted under IAS 34 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 explanatory 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 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 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, 2013, while the income statement reports the comparative figures for the same period of the previous year.

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 interim financial statements at June 30, 2014, 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, 2014. 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). In accordance with Bank of Italy Circular no. 262 of 22 December 2005 – 2nd update of January 21, 2014 - items without values for the reference period and the previous period are not included. In the income statement and in the relevant sections of the notes to the financial statements, revenues are shown without indicating their sign, while cost figures are shown within parentheses.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income is presented in accordance with the format prescribed by Bank of Italy Circular no. 262/2005 – 2nd update of January 21, 2014. In the items of other comprehensive income, the statement reports changes in the value of assets recognized in the valuation reserves. Items which have zero 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 is presented in accordance with the format prescribed by Bank of Italy Circular no. 262/2005 – 2nd update of January 21, 2014. 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 other shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period.

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 Bank of Italy Circular no. 262/2005 – 2nd update of January 21, 2014 - and other information required by international accounting standards. 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 operations.

Section 4: Other information

CONSOLIDATED TAX MECHANISM OPTION

Starting in 2004, Iccrea Holding and all the Group companies adopted 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 financial statements have undergone a limited review by Reconta Ernst & Young 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.

In addition, as required under the amendments of IFRS 7 issued by IASB in March 2009, endorsed by the European Commission with Regulation (EC) no. 1165/2009 on November 27, 2009 and incorporated by the Bank of Italy in Circular no. 262/2005 with the 1st update of November 18, 2009, to ensure proper disclosure Iccrea Banca reports the quality of the inputs used to determine the fair value of financial instruments (the "fair value hierarchy"). The procedures for determining fair value and assigning instruments to the levels in the fair value hierarchy are discussed in section 17 "Other information" below.

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. 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. Fair value is determined using the criteria adopted for financial assets held for trading. Equity instruments for which the fair value cannot be reliably determined using valuation techniques are carried at cost and adjusted for any impairment losses.

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.

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 loans or 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. Subsidiaries are companies in which the Bank holds, either directly or indirectly, more than half of the voting rights unless it can be shown that possessing these rights does not constitute control. Control also exists where the Bank exercises the power to determine financial and operating policies. The consolidated financial statements are prepared by the parent company.

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.

Derecognition

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

The item reports property and equipment used in operations and that held for investment purposes.

PROPERTY AND EQUIPMENT USED IN OPERATIONS

Classification

Property and equipment includes land, buildings used in operations, technical plant, furniture and equipment of all types. This item includes assets that are used in providing goods and services or used for administrative purposes for a period of more than one year.

Recognition

Property and equipment is recognized at cost, which in addition to the purchase price includes incidental expenses and all costs directly attributable to placing the asset in service. Extraordinary maintenance expenses that increase the future economic benefits of such assets are allocated as an increase in the value of the assets, while ordinary maintenance costs are recognized in the income statement.

Measurement

Property and equipment, including investment property, 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. Depreciation rates are determined on the basis of the residual useful life of the assets in an amount considered to appropriately represent the deterioration and consumption of assets over time. Buildings are depreciated at a rate of 3% per year.

The useful life of property and equipment is reviewed at the end of every reporting period, and if it differs from previous estimates, the depreciation rate is adjusted for the current and subsequent financial periods. Land, whether purchased individually or incorporated into the value of a building, is not depreciated.

Derecognition

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

INVESTMENT PROPERTY

Investment property is real estate owned for the purposes of receiving rental income and/or for the appreciation of the invested capital. The same criteria for initial recognition, measurement, and derecognition used for buildings held for operating purposes are applied to investment property.

measured on a cost basis and represent the same value as that given using Italian GAAP

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

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

Recognition and classification

This item includes non-current assets held for sale, and the assets and liabilities associated with disposal groups for which sale is expected within twelve months from the classification date, such as any equity investments in subsidiaries, associates, or jointly-controlled companies, and property and equipment or intangible assets or assets and liabilities associated with business units held for sale.

Measurement and recognition of income components

The assets and liabilities included in this item are carried at the lower of the carrying amount and the fair value net of costs to sell. The related income and expenses are shown in the income statement under a separate item, net of any tax effect.

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 Holding 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

Income taxes are recognized in the income 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 fulfill 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 fulfill 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.

Derecognition

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.

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 by Bank of Italy Circular no. 262 – 2nd update of January 21, 2014. 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 in an arm's length transaction. 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 external 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 guidelines for the measurement of fair value in all circumstances. The new standard does not change the cases in which fair value must be used but rather provides 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

TYPE OF FINANCIAL INSTRUMENT	ORIGINAL CLASSIFICATION	NEW CLASSIFICATION	CARRYING AMOUNT AT 30/06/2014	FAIR VALUE *AT* 30/06/2014	INCOME COMPONENTS WITHOUT TRANSFER (PRE TAX)		INCOME COMPONENTS RECOGNIZED IN THE PERIOD (PRE TAX))	
					VALUATION	OTHER	VALUATION	OTHER
Debt securities	Assets held for trading	Assets available for sale	9,217	9,217	429	46	411	65

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 end of the reporting period as no transfers were carried out.

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

ISIN	DESCRIPTION OF SECURITY	INTERNAL RATE OF RETURN AT 30/06/2014	EXPECTED CASH FLOWS AT 30/06/2014
XS0247770224	ITALY 22.3.2018	1,4707	Lower of (2.25 * European inflation rate) and (6-month Euribor + 0.60)

A.4 – FAIR VALUE DISCLOSURES

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).

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.

<u>Mark to market approach</u>

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.

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

- bonds are values 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 value 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 PROCESSES AND SENSITIVITY OF THE VALUATIONS

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

	30/06/2014			31/12/2013		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	19,477	424,288	380	6,467	433,559	354
2. Financial assets designated as at fair value	-	317,060	-	-	312,665	8,485
3. Financial assets available for sale	4,027,851	154,847	471	3,352,594	93,206	482
4. Hedging derivatives	-	5,471	-	-	5,562	-
5. Property and equipment	-	-	-	-	-	-

6. Intangible assets	-	-	-	-	-	-
TOTAL	**4,047,328**	**901,666**	**851**	**3,359,061**	**844,992**	**9,321**
1. Financial liabilities held for trading	139	415,036	-	319	390,917	-
2. Financial liabilities designated as at fair value	745,235	6,004	-	757,425	5,993	-
3. Hedging derivatives	-	89,363	-	-	75,167	-
TOTAL	**745,374**	**510,403**	**-**	**757,744**	**472,077**	**-**

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

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..

	30/06/2014				31/12/2013			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	3,584,098	3,624,803	-	-	3,755,290	3,796,096	-	-
2. Due from banks	35,624,910	-	14,917,261	20,825,366	32,827,713	-	12,604,806	20,166,449
3. Loans to customers	2,140,800	-	985,156	1,208,751	1,768,381	-	920,064	897,928
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	291,488	-	-	291,491	30,313	29,897	-	416
TOTAL	**41,641,296**	**3,624,803**	**15,902,418**	**22,325,609**	**38,381,697**	**3,825,993**	**13,524,869**	**21,064,793**
1. Due to banks	24,117,673	-	309,058	24,302,999	21,391,952	-	148,922	21,165,195
2. Due to customers	15,797,377	-	177,909	15,696,806	15,259,974	-	190,800	15,069,173
3. Securities issued	4,512,229	2,927,663	1,729,649	-	4,287,398	2,610,222	1,770,485	-
4. Liabilities associated with assets held for sale	292,915	-	-	292,915	32,905	-	-	32,905
TOTAL	**44,720,194**	**2,927,663**	**2,216,616**	**40,292,720**	**40,972,229**	**2,610,222**	**2,110,207**	**36,267,273**

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

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

Pursuant to paragraph 28 of IFRS 7, during the period under review – mainly with regard to asset swaps in respect of Italian government securities (BTPs) linked to European inflation – 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 IG 28. The net effect associated with the purchase of the government securities and the associated hedges produced a loss of €877 thousand recognized entirely through profit or loss. Paragraph AG 76, point a) of IAS 39 establishes that an entity shall recognize through profit or loss the difference between the fair value at the date of initial recognition (whether a quoted price in an active market - Level 1 or based on a valuation technique that uses observable data – Level 2) and the transaction price.

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.

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	TOTAL 30/06/2014	TOTAL 31/12/2013
a) Cash	76,444	82,637
b) Demand deposits with central banks	-	-
TOTAL	**76,444**	**82,637**

"Cash" includes foreign currency in the amount of €15,040 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 30/06/2014			TOTAL 31/12/2013		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. On-balance-sheet assets						
1. Debt securities	**17,982**	**1**	**210**	**5,105**	**214**	**207**
1,1 structured securities	3,969	-	210	4,485	-	207
1,2 other debt securities	14,013	1	-	620	214	-
2. Equity securities	**406**	**14**	**170**	**337**	**5**	**147**
3. Units in collective investment undertakings	**935**	**-**	**-**	**904**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**

4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL A	**19,323**	**15**	**380**	**6,346**	**219**	**354**
B. Derivatives						
1. Financial derivatives	**155**	**424,272**	**-**	**121**	**433,340**	**-**
1.1 trading	155	405,415	-	121	410,998	-
1.2 associated with fair value option	-	18,857	-	-	22,342	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
TOTAL B	**155**	**424,272**	**-**	**121**	**433,340**	**-**
TOTAL (A+B)	**19,478**	**424,287**	**380**	**6,467**	**433,559**	**354**

The amount reported at B (1.2) regards derivatives associated with the election of the fair value option. The associated balance-sheet items are classified under financial assets and financial liabilities at fair value (for more information, please see section 3 of assets).

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 30/06/2014			TOTAL 31/12/2013		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**-**	**317,060**	**-**	**-**	**312,665**	**8,485**
1.1 structured securities	-	-	-	-	-	8,485
1.2 other debt securities	-	317,060	-	-	312,665	-
2. Equity securities	**-**	**-**	**-**	**-**	**-**	**-**
3. Units in collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 structured	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL	**-**	**317,060**	**-**	**-**	**312,665**	**8,485**
COST	**-**	**311,297**	**-**	**-**	**296,261**	**8,071**

The amounts reported under "cost" indicate the purchase cost of financial assets held at the reporting date.

Overall, the Bank exercised the fair value option for the following transactions:

- two structured bonds issued by the Bank, which are operationally connected with derivatives, in order to avoid an accounting mismatch, thereby creating establishing a natural hedge (see section 5 of liabilities);
- one structured bond issued by the Bank in order to avoid the need to unbundle the embedded derivative (see section 5 of liabilities);
- a group of financial instruments in order to significantly reduce the overall mismatching in the accounts. The group consists of (see section 5 of liabilities):
  - a bond issued by the Bank containing a separable embedded derivative;
  - a debt security issued by Iccrea BancaImpresa held by the Bank (reported in the table above in point 1.2);
  - derivatives connected with the above instruments that establish a natural hedge.

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 30/06/2014			TOTAL 31/12/2013		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**4,024,286**	**154,847**	**-**	**3,349,048**	**93,206**	**-**
1.1 structured securities	-	87,051	-	-	82,013	-
1.2 other debt securities	4,024,286	67,796	-	3,349,048	11,193	-
2. Equity securities	**3,565**	**-**	**3,146**	**3,546**	**-**	**3,146**
2.1 at fair value	3,565	-	-	3,546	-	-
2.2 carried at cost	-	-	3,146	-	-	3,146
3. Units in collective investment undertakings	**-**	**-**	**471**	**-**	**-**	**482**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**4,027,851**	**154,847**	**3,617**	**3,352,594**	**93,206**	**3,628**

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Financial assets with specific fair value hedges:	**708,118**	**527,030**
a) interest rate risk	708,118	527,030
b) price risk	-	-
c) exchange rate risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2. Financial assets with specific cash flow hedges:	**88,167**	**84,247**
a) interest rate risk	88,167	84,247

b) exchange rate risk	-	-
c) other	-	-
TOTAL	**796,285**	**611,277**

The amounts regard Italian government securities (BTPs) linked to European inflation, hedged with asset swaps in order to immunize interest rate risk (fair value hedging) and 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 30/06/2014				TOTAL 31/12/2013			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**3,584,098**	**3,624,803**	**-**	**-**	**3,755,290**	**3,796,096**	**-**	**-**
- structured	-	-	-	-	-	-	-	-
- other	3,584,098	3,624,803	-	-	3,755,290	3,796,096	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**3,584,098**	**3,624,803**	**-**	**-**	**3,755,290**	**3,796,096**	**-**	**-**

	TOTAL 30/06/2014				TOTAL 31/12/2013			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Claims on central banks	**410,699**				**467,426**			
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Reserve requirement	410,699	X	X	X	467,426	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**35,214,211**				**32,360,287**			

1. Financing	31,590,344				28,089,261			
1.1. Current accounts and demand deposits	779,790	X	X	X	526,695	X	X	X
1.2. Fixed-term deposits	321,419	X	X	X	1,152,394	X	X	X
1.3. Other financing:	30,489,135	X	X	X	26,410,172	X	X	X
- Repurchase agreements	8,416,009	X	X	X	6,586,165	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	22,073,126	X	X	X	19,824,007	X	X	X
2. Debt securities	3,623,867				4,271,026			
2.1 Structured securities	96,153	X	X	X	109,871	X	X	X
2.2 Other debt securities	3,527,714	X	X	X	4,161,155	X	X	X
TOTAL	**35,624,910**	**-**	**14,917,261**	**20,825,366**	**32,827,713**	**-**	**12,604,806**	**20,166,449**

Key:
FV = fair value
CA = carrying amount

SECTION 6 - DUE FROM BANKS – ITEM 60

This item reports unlisted financial assets in respect of banks (current accounts, demand and fixed-term deposits, security deposits, debt securities, etc.) classified as “loans and receivables” pursuant to IAS 39.

6.1 DUE FROM BANKS: COMPOSITION BY TYPE

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).

The item "Other financing – Other" includes impaired assets classified as bad debts in respect of the Icelandic bank Landsbanki Island hf. amounting to €6,053 thousand, entirely written off.

Loans granted to the mutual banks associated with operations with the European Central Bank, in particular advances received from the latter secured by securities eligible for use in refinancing transactions (pool collateral) amounted to €19,216 million and are reported under letter "B", "Other financing – Other". The securities pledged as collateral by the mutual banks amount to €23,172 million net of the haircut applied to the various types of security.

Following the introduction of the Group's new organizational model, the Bank, in its capacity as the manager of Group financial resources, is responsible for funding and financing all the companies of the Iccrea Banking Group. Specifically, the following securities issued by Iccrea BancaImpresa were subscribed and classified under "Due from banks – debt securities – Other":

ISIN	NOMINAL VALUE	COUPON AT 30/06/2014	ISSUE DATE	MATURITY
IT0004511561	180,000,000.00	3.402%	01/07/2009	01/07/2014
IT0004511512	720,000,000.00	0.805%	01/07/2009	01/07/2014
IT0004563372	400,000,000.00	0.807%	30/12/2009	30/12/2014
IT0004628035	245,000,000.00	1.297%	02/08/2010	02/08/2015
IT0004675127	9,174,000.00	3.614%	01/01/2011	01/05/2016
IT0004813041	8,200,000.00	3.192%	16/04/2012	01/04/2015
IT0004813033	21,000,000.00	3.722%	16/04/2012	03/04/2017
IT0004816564	2,690,000.00	3.290%	10/05/2012	01/04/2015
IT0004816598	13,000,000.00	3.820%	10/05/2012	03/04/2017
IT0004840556	12,600,000.00	3.100%	12/07/2012	01/07/2015
IT0004840523	11,300,000.00	3.780%	12/07/2012	01/07/2022
IT0004840549	16,300,000.00	3.410%	12/07/2012	03/07/2017
IT0004840531	11,500,000.00	3.830%	12/07/2012	01/07/2019
IT0004865611	14,180,000.00	2.700%	23/10/2012	01/10/2015
IT0004865595	17,000,000.00	3.080%	23/10/2012	02/10/2017

IT0004865603	14,000,000.00	3.640%	23/10/2012	01/10/2025
IT0004870785	12,300,000.00	2.969%	21/11/2012	01/07/2027
IT0004870777	7,110,000.00	1.319%	21/11/2012	01/07/2015
IT0004870793	6,040,000.00	1.540%	21/11/2012	01/10/2015
IT0004870769	6,310,000.00	1.410%	21/11/2012	01/10/2015
IT0004894298	23,910,000.00	1.419%	08/02/2013	04/01/2016
IT0004894546	3,560,000.00	1.520%	08/02/2013	01/01/2016
IT0004894660	22,000,000.00	1.969%	08/02/2013	02/01/2018
IT0004894280	58,000,000.00	1.960%	08/02/2013	02/01/2018
IT0004894454	72,200,000.00	1.420%	08/02/2013	04/01/2016
IT0004920614	38,430,000.00	3.770%	07/05/2013	01/04/2025
IT0004921075	100,730,000.00	3.650%	07/05/2013	01/07/2025
IT0004920630	61,880,000.00	3.130%	07/05/2013	03/04/2028
IT0004929870	18,560,000.00	3.710%	24/05/2013	01/10/2019
IT0004936693	47,220,000.00	3.040%	17/06/2013	03/07/2023
IT0004936685	16,780,000.00	2.999%	17/06/2013	01/07/2020
IT0004942147	43,170,000.00	3.170%	15/07/2013	02/01/2026
IT0004942436	9,660,000.00	3.393%	15/07/2013	01/01/2016
IT0004942428	17,420,000.00	3.129%	15/07/2013	01/07/2022
IT0004955784	8,270,000.00	3.319%	09/08/2013	01/07/2022
IT0004955792	9,640,000.00	3.855%	09/08/2013	01/04/2017
IT0004955800	66,910,000.00	3.370%	09/08/2013	01/10/2020
IT0004960941	11,890,000.00	3.210%	16/09/2013	02/01/2018
IT0004960958	40,900,000.00	3.199%	16/09/2013	03/01/2028
IT0004966427	76,930,000.00	3.120%	14/10/2013	01/04/2022

IT0004975881	79,870,000.00	3.390%	19/11/2013	01/07/2025
IT0004982432	12,000,000.00	3.039%	12/12/2013	02/01/2025
IT0004982424	85,200,000.00	3.070%	12/12/2013	02/01/2019
IT0004987712	93,350,000.00	2.870%	15/01/2014	01/04/2022
IT0004987720	23,020,000.00	3.547%	15/01/2014	01/04/2019
IT0004987738	73,000,000.00	2.823%	15/01/2014	01/07/2022
IT0005023210	37,500,000.00	3.024%	12/05/2014	03/04/2029
IT0005023202	128,000,000.00	2.244%	12/05/2014	01/04/2019
IT0005025108	13,000,000.00	2.046%	26/05/2014	02/01/2024
IT0005025082	80,000,000.00	2.151%	03/06/2014	02/04/2024
IT0005029670	75,000,000.00	2.160%	23/06/2014	03/04/2029
TOTALE	**3,175,704,000**			

The nominal value is reported in euros.

6.2 Due from banks: assets hedged specifically

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Loans with specific fair value hedges:	**355,253**	**535,422**
a) interest rate risk	355,253	535,422
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	**355,253**	**535,422**

The item consists of 1 fixed-rate security issued by Iccrea BancaImpresa, hedged with an interest rate swap (IRS), fixed-rate treasury deposits hedged with overnight indexed swaps and repurchase agreements with Banca Sviluppo (both one to one and macrohedging) also hedged with overnight indexed swaps.

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 30/06/2014						TOTAL 31/12/2013			
	CARRYING AMOUNT			FAIR VALUE			CARRYING AMOUNT			
	PERFORMING	IMPAIRED		L1	L2	L3	PERFORMING	IMPAIRED		L1
		PURCHASED	OTHER					PURCHASED	OTHER	
ans	**2,099,764**	**-**	**23,744**				**1,721,549**	**-**	**29,949**	
. Current accounts	219,505	-	264	X	X	X	153,036	-	3,744	X
. Repurchase reements	500,786	-	-	X	X	X	19,160	-	-	X
. Medium/long-term ans	154,720	-	22,809	X	X	X	151,923	-	24,609	X
. Credit cards, personal ans and loans repaid by tomatic deductions from ages	-	-	-	X	X	X	-	-	-	X
. Finance leases	-	-	-	X	X	X	-	-	-	X
. Factoring	-	-	-	X	X	X	-	-	-	X
. Other	1,224,753	-	671	X	X	X	1,397,430	-	1,596	X
bt securities	**17,292**	**-**	**-**				**16,883**	**-**	**-**	
. Structured securities	-	-	-	X	X	X	-	-	-	X
. Other debt securities	17,292	-	-	X	X	X	16,883	-	-	X
TAL	**2,117,056**	**-**	**23,744**	**-**	**985,156**	**1,208,751**	**1,738,432**	**-**	**29,949**	**-**

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

Impaired assets include bad debts in the amount of €3,706 thousand in respect of the Lehman Brothers Group, entirely written off. During the period, about €566 thousand were received in a distribution of assets, giving rise to a writeback.

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Loans with specific fair value hedges:	**41,055**	**43,626**

a) interest rate risk	41,055	43,626
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	**41,055**	**43,626**

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 two fixed-rate loans – one to BCC Solutions in the amount of €23,701 thousand (outstanding debt at June 30, 2014) and the other to BCC CreditoConsumo in the amount of €12,296 thousand (outstanding debt at June 30, 2014) 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 30/06/2014			NV 30/06/2014	FV 31/12/2013			NV 31/12/2013
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**5,471**	**-**	**298,162**	**-**	**5,562**	**-**	**424,981**
1) Fair value	-	4,290	-	247,700	-	4,451	-	374,700
2) Cash flows	-	1,181	-	50,462	-	1,111	-	50,281
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-

TOTAL	**-**	**5,471**	**-**	**298,162**	**-**	**5,562**	**-**	**424,981**

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 TYPE OF CONTRACT AND LEVEL OF INPUT

	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	-	-	-	-	-	X	1,181	X	X
2. Loans	23	-	-	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 30/06/2014	**23**	**-**	**-**	**-**	**-**	**-**	**1,181**	**-**	**-**
1. Financial liabilities	4,267	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 30/06/2014	**4,267**	**-**	**-**	**X**	**-**	**-**	**-**	**-**	**-**
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 amount reported under point 1 "Financial assets available for sale" regards the positive fair values of the asset swap micro-hedging cash flows on a BTP linked to European inflation.

The item "Loans" reports the fair value of overnight indexed swaps hedging the treasury's deposits and repurchase agreements.

The item "Financial liabilities" reports the positive fair values of interest rate swaps and interest rate options hedging three fixed-rate bonds and two mixed-rate bonds issued by the Bank.

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 30/06/2014	TOTAL 31/12/2013
1. Positive adjustments	**222**	**-**
1.1 of specific portfolios:	222	-
a) loans	222	-
b) financial assets available for sale	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**-**	**(53)**
2.1 of specific portfolios:	-	(53)
a) loans	-	(53)
b) financial assets available for sale	-	-
2.2 comprehensive	-	-
TOTAL	**222**	**(53)**

9.2 MACRO-HEDGED AGAINST INTEREST RATE RISK

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Loans	190,000	190,000
2. Assets available for sale	-	-
3. Portfolio	-	-

TOTAL	**190,000**	**190,000**

The macro-hedging was conducted for portfolios of deposits and repurchase agreements, managed by the treasury unit, using overnight indexed swaps.

SECTION 10 - EQUITY INVESTMENTS – ITEM 100

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

	REGISTERED OFFICE	% HOLDING	% OF VOTES
A. Wholly-owned subsidiaries			
1. BCC Securis s.r.l. in liq.	Rome	90.00	90.00
B. Joint ventures			
C. Companies subject to significant influence			
1. BCC Beni Immobiliari s.r.l.	Milan	47.60	47.60
2. M-Facility S.P.A.	Rome	37.50	37.50
3. Hi-Mtf S.p.A.	Milan	25.00	25.00
4. Iccrea BancaImpresa S.p.A.	Rome	35.41	35.41
5. Accademia BCC S.c.p.A.	Rome	25.00	25.00

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

	TOTAL ASSETS	TOTAL REVENUES	NET PROFIT (LOSS)	SHAREHOLDERS' EQUITY	CARRYING AMOUNT	FAIR VALUE		
						L1	L2	L3
A. Wholly-owned subsidiaries								
1. BCC Securis s.r.l. in liq.	467	36	-	11	-	X	X	X
B. Joint ventures						X	X	X
C. Companies subject to significant influence								
1. BCC Beni Immobiliari s.r.l.	17,716	417	(25)	17,090	11,600	-	-	11,600
2. M-Facility S.P.A.	1,914	-	(28)	1,848	705	-	-	705
3. Hi-Mtf S.p.A.	6,290	3,046	419	5,641	1,250	-	-	1,250

4. Iccrea BancaImpresa S.p.A.	14,939,650	415,482	2,158		575,181	249,855	-	-	249,855
5. Accademia BCC S.c.p.A.	2,578	2,733	(34)		360	200	-	-	200
TOTAL						**263,610**	**-**	**-**	**263,610**

The figures are at December 31, 2013, with the exception of the carrying amount, which is reported as at the date of the financial statements for the period under review.

At its meeting of March 6, 2014, the Board of Directors of Iccrea Banca S.p.A., in line with the strategic policies of the Parent Company, authorized the subscription of the entire capital increase (€200 million) undertaken by Iccrea BancaImpresa S.p.A.. On March 31, the Bank made a payment in respect of a capital increase for the rights pertaining to the Bank in respect of its share (€16.5 million) and for the share not taken up by Iccrea Holding (€153.5 million). In May, the Bank subscribed and paid in the remainder of the capital increase not taken up by the other shareholders (€29.8 million).

Pursuant to Legislative Decree 87/92 and electing the option envisaged under IAS 27, paragraph 10 d), the Bank does not prepare consolidated financial statements as the Parent Company Iccrea Holding prepares consolidated financial statements for public use in conformity with the International Financial Reporting Standards.

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 30/06/2014	TOTAL 31/12/2013
1. Owned assets	**7,077**	**8,320**
a) land	-	-
b) buildings	-	-
c) movables	311	322
d) electrical plants	6,139	7,305
e) other	627	693
2 Assets acquired under financial leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) movables	-	-
d) electrical plants	-	-
e) other	-	-
TOTAL	**7,077**	**8,320**

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 30/06/2014		TOTAL 31/12/2013	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	X	-	X	-

A.2 Other intangible assets	**5,888**	**-**	**7,238**	**-**
A.2.1 Assets carried at cost:	5,888	-	7,238	-
a) internally generated intangible assets	-	-	-	-
b) other assets	5,888	-	7,238	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
TOTAL	**5,888**	**-**	**7,238**	**-**

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 30/06/2014	TOTAL 31/12/2013
A. Gross deferred tax assets	**8,590**	**10,018**
A1. Loans (including securitizations)	5,792	6,083
A2. Other financial instruments	548	1,357
A3. Goodwill	-	-
A4. Deferred charges	-	-
A5 Property and equipment	-	-
A6. Provisions for risks and charges	1,617	1,589
A7. Entertainment expenses	-	-
A8. Personnel costs	633	989
A9. Tax losses	-	-
A10. Unused tax credits to deduct	-	-
A11. Other	-	-
B. Offsetting with deferred tax liabilities	**1,010**	**1,789**
C. NET DEFERRED TAX ASSETS (A-B)	**7,580**	**8,229**

13.2 DEFERRED TAX LIABILITIES: COMPOSITION

	TOTAL 30/06/2014	TOTAL 31/12/2013
A. Gross deferred tax liabilities	**32,269**	**22,172**
A1. Capital gains tax in installments	41	55
A2. Goodwill	-	-
A3. Property and equipment	-	-

A4. Financial instruments	32,211	22,117
A5. Personnel costs	-	-
A6. Other	17	-
B. Offsetting with deferred tax assets	**1,010**	**1,789**
C. NET DEFERRED TAX LIABILITIES (A-B)	**31,259**	**20,383**

Current tax assets and liabilities in respect of corporate income tax (IRES) included in the consolidated tax mechanism have been reclassified from "other assets" and "other liabilities" to the sub-item "Receivables/payables in respect of Parent Company for consolidated tax mechanism". Deferred tax assets and liabilities were offset in compliance with the provisions of IAS 12, paragraph 74.

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 in 2003 pursuant to Law 342 of 22/11/2000 net of the special capital gains tax already paid (€11,227 thousand). As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €8.0 million.
-

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

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Opening balance	**8,229**	**12,333**
2. Increases	**184**	**586**
2.1 Deferred tax assets recognized during the period	184	586
a) in respect of previous period	-	-
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	184	586
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**817**	**4,690**

3.1 Deferred tax assets derecognized during the period	815	4,315
a) reversals	815	4,315
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	2	-
3.3 Other decreases:	-	375
a) transformation into tax credits pursuant to Law 214/2011	-	-
b) other	-	375
4. Closing balance	**7,596**	**8,229**

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

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

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

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Opening balance	**-**	**-**
2. Increases	**16**	**-**
Deferred tax liabilities recognized during the period	16	-
a) in respect of previous period	-	-
b) due to changes in accounting policies	-	-
c) other	16	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognized during the period	-	-
a) reversals	-	-

b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**16**	**-**

13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Opening balance	**1,789**	**6,280**
2. Increases	**314**	**432**
2.1 Deferred tax assets recognized during the period	314	432
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	314	432
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,109**	**4,923**
3.1 Deferred tax assets derecognized during the period	1,109	4,923
a) reversals	1,109	4,923
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	**994**	**1,789**

13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Opening balance	**22,172**	**15,537**
2. Increases	**10,258**	**6,635**
2.1 Deferred tax liabilities recognized during the period	10,258	6,635
a) in respect of previous periods	-	-

b) due to changes in accounting policies	-	-
c) other	10,258	6,635
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**177**	**-**
3.1 Deferred tax liabilities derecognized during the period	173	-
a) reversals	173	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	4	-
3.3 Other decreases	-	-
4. Closing balance	**32,253**	**22,172**

13.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2009, 2010, 2011 and 2012 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- the Bank received a notice of liquidation for registration fees on the sale of the "Corporate" business unit to Iccrea BancaImpresa. The payment was made and at the same time an appeal was lodged with the Provincial Tax Commission of Rome as the claims of the tax authorities appear groundless both in law and in administrative practice. On December 15, 2011, with ruling 499/26/11, the Provincial Tax Commission of Rome granted our appeal in full, finding that the Revenue Agency was in clear violation of a specific provision of the uniform registration fee code. As the time limit provided for under Article 38 of Legislative Decree 546/92 had expired, on January 31, 2014 the ruling was notified to the Revenue Agency in enforceable form in order to obtain restitution of the amounts paid.
- On November 14, 2012, the Bank received a notice of assessment from the Revenue Agency, Regional Directorate of Lazio - Large Taxpayer Office for the 2007 financial year with which the taxable amounts subject to VAT declared on activities performed as depository bank were adjusted. The assessment stems from a formal notice of assessment from the audit activities performed by that Office in respect of Beni Stabili Gestione SGR. The increase in tax comes to €33,520 for VAT plus penalties of €41,900. On January 11, 2013 an appeal was filed against the above assessment in order to challenge the claims of the tax authorities. Following Resolution no. 97 of December 17, 2013 of the Revenue Agency, which set the VAT-liable portion of the commissions

received for custodian bank activities at 28.3%, contacts were initiated with the Regional Directorate of Lazio to settle the dispute with the application of that percentage.

- On July 22, 2014, as done for 2008, the Revenue Agency, Regional Directorate of Lazio - Large Taxpayer Office requested documentation concerning revenues received for custodian bank activities in 2009, 2010, 2011 and 2012. The Bank is gathering the documentation for delivery to the Revenue Agency. We believe that the tax authorities will notify the associated assessments to us in September this year. The amounts assessed will be paid and, as set out in our agreements, we will pass the charges through to the appropriate asset management companies, which in turn will charge the appropriate investment funds, as was already done for 2008. The overall charge should amount to about €910 thousand plus interest.

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 the individual assets and groups of assets held for sale, pursuant to IFRS 5.

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

	TOTAL 30/06/2014	TOTAL 31/12/2013
A. Individual assets		
A.1 Financial assets	-	-
A.2 Equity	-	-
A.3 Property and equipment	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
TOTAL A	**-**	**-**
of which carried at cost	-	-
of which at fair value Level 1	-	-
of which at fair value Level 2	-	-
of which at fair value Level 3	-	-
B. Disposal groups (discontinued operations)		
B.1 Financial assets held for trading	-	-
B.2 Financial assets at fair value	-	-
B.3 Financial assets available for sale	-	29,897
B.4 Financial assets held to maturity	-	-
B.5 Due from banks	287,007	-
B.6 Loans to customers	4,481	412
B.7 Equity investments	-	-
B.8 Property and equipment	-	-
B.9 Intangible assets	-	-
B.10 Other assets	-	4
TOTAL B	**291,488**	**30,313**
of which carried at cost	291,491	416
of which at fair value Level 1	-	29,897

of which at fair value Level 2	-	-
of which at fair value Level 3	291,488	416
C. Liabilities associated with non-current assets held for sale		
C.1 Debt	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
TOTAL C	**-**	**-**
of which carried at cost	-	-
of which at fair value Level 1	-	-
of which at fair value Level 2	-	-
of which at fair value Level 3	-	-
D. Liabilities associated with disposal groups held for sale		
D.1 Due to banks	-	-
D.2 Due to customers	292,914	32,764
D.3 Securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities at fair value	-	-
D.6 Provisions	1	108
D.7 Other liabilities	-	33
TOTAL D	**292,915**	**32,905**
of which carried at cost	292,915	32,905
of which at fair value Level 1	-	-
of which at fair value Level 2	-	-
of which at fair value Level 3	292,915	32,905

14.2 OTHER INFORMATION

As part of the rationalization of the Group structure, the Parent Company has decided to dispose of the "Custodian Bank" business unit. The Board of Directors of Iccrea Banca, responding to that decision, engaged PricewaterhouseCoopers to appraise the unit for sale. On the basis of the valuation received – €20.1 million – negotiations for its sale were begun with Istituto Centrale delle Banche Popolari Italiane. On May 7, 2014, the sale was agreed at the appraised value. The price will be subject to an adjustment up or down of €900 thousand depending on commissions accrued at the effective date of the sale, which is scheduled for September 26, 2014. On the basis of the information available to date, the €900 thousand adjustment is in our favor.

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

The table 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 30/06/2014	TOTAL 31/12/2013
Items being processed	78.806	69.811
Receivables for future premiums	24.043	22.967
Commissions	42.864	52.458
Receivables due from Parent Company in respect of consolidated tax mechanism	11.312	28.580
Definitive items not allocable to other accounts	28.747	25.392
Tax receivables due from tax authorities and other entities	16.669	18.173
TOTAL	**202.441**	**217.381**

The items “Items being processed” and “Definitive items not allocable to other accounts” comprise transactions that were settled in the first few days of the second half of 2014.

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 50.

1.1 DUE TO BANKS: COMPOSITION BY TYPE

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Due to central banks	**16,057,891**	**14,044,974**
2. Due to banks	**8,059,782**	**7,346,978**
2.1 Current accounts and demand deposits	4,185,382	4,516,451
2.2 Fixed-term deposits	3,811,393	2,762,112
2.3 Loans	61,601	66,633
2.3.1 Repurchase agreements	48,800	53,672
2.3.2 Other	12,801	12,961
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	1,406	1,782
TOTAL	**24,117,673**	**21,391,952**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**309,058**	**148,922**
FAIR VALUE LEVEL 3	**24,302,999**	**21,165,195**
TOTAL FAIR VALUE	**24,612,057**	**21,314,117**

The item “due to central banks” represents financing from the ECB for advances secured by securities owned by the mutual banks and the Bank. The amount also includes the advance of €271,150 thousand in respect of the secured liability issued pursuant to Article 8 of Decree Law 201 of December 6, 2011, ratified with Law 214 of December 24, 2011, in the amount of €290,000 thousand. We expect to repay and extinguish that liability during the second half of the year.

The sub-item “fixed-term deposits” also includes deposits received from mutual banks in the amount of about €740,000 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 30/06/2014	TOTAL 31/12/2013
1. Current accounts and demand deposits	406,891	705,522
2. Fixed-term deposits	1,206	26,014
3. Loans	14,994,668	14,133,497
3.1 Repurchase agreements	14,994,668	14,113,497
3.2 Other	-	20,000
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other payables	394,612	394,941
TOTAL	**15,797,377**	**15,259,974**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**177,909**	**190,800**
FAIR VALUE LEVEL 3	**15,696,806**	**15,069,173**
TOTAL FAIR VALUE	**15,874,715**	**15,259,973**

The sub-item “Repurchase agreements” is composed entirely by 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 30/06/2014				TOTAL 31/12/2013			
	CARRYING AMOUNT	FAIR VALUE			CARRYING AMOUNT	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Securities								
1. Bonds	4,512,229	2,927,663	1,729,649	-	4,287,398	2,610,222	1,770,485	-
1.1 structured	599,154	633,326	6,966	-	563,572	598,571	1,247	-
1.2 other	3,913,075	2,294,337	1,722,683	-	3,723,826	2,011,651	1,769,238	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**4,512,229**	**2,927,663**	**1,729,649**	**-**	**4,287,398**	**2,610,222**	**1,770,485**	**-**

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

In March we issued a subordinated lower Tier II bond of €200 million with the following characteristics:

- issue date March 6, 2014;
- maturity date March 6, 2021;
- annual interest rate 4.75% fixed gross;

- interest paid annually in arrears;
- repayment through periodic amortization as from the third year (March 6, 2017) in 5 equal annual instalments.

3.3 SECURITIES ISSUED: SECURITIES HEDGED SPECIFICALLY

	TOTAL 30/06/2014	TOTAL 31/12/2013
1. Securities covered by specific fair value hedges	**632,367**	**575,226**
a) interest rate risk	632,367	575,226
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Liabilities covered by specific cash flow hedges	**18,093**	**-**
a) interest rate risk	-	-
b) exchange rate risk	18,093	-
c) other	-	-

The amounts reported regard 6 bonds issued by the Bank and hedged for interest rate risk using interest rate derivatives and 1 bond in US dollars hedged for interest rate and exchange rate risk.

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 30/06/2014					TOTAL 31/12/2013				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	**49**	**50**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**332**	**220**	**-**	**-**	**220**
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	**49**	**50**	**-**	**-**	**-**	**332**	**220**	**-**	**-**	**220**
B. Derivatives										
1. Financial derivatives		**89**	**415,036**	**-**			**99**	**390,917**	**-**	
1.1 Trading	X	89	415,036	-	X	X	99	390,917	-	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	X	-	-	-	X	X	-	-	-	X

value option										
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL B	**X**	**89**	**415,036**	**-**	**X**	**X**	**99**	**390,917**	**-**	**X**
TOTAL (A+B)	**X**	**139**	**415,036**	**-**	**X**	**X**	**319**	**390,917**	**-**	**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).

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

This item reports financial liabilities designated as at fair value through profit or loss under the option available to reporting entities (the fair value option) under IAS 39.

5.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	TOTAL 30/06/2014					TOTAL 31/12/2013				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	**730,694**	**745,235**	**6,004**	**-**	**760,738**	**746,301**	**757,425**	**5,993**	**-**	**779,508**
3.1 Structured	730,694	745,235	6,004	-	X	746,301	757,425	5,993	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL	**730,694**	**745,235**	**6,004**	**-**	**760,738**	**746,301**	**757,425**	**5,993**	**-**	**779,508**

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

"Financial liabilities at fair value" include:

- 2 structured bonds issued by the Bank that are operationally connected to derivatives used to establish a natural hedge;
- 1 bond connected with a group of financial instruments in order to reduce overall mismatching significantly (see Section 3, part B, of assets);

- 1 structured bond issued by the Bank in order to avoid the need to separate the embedded derivative.

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 30/06/2014			NV 30/06/2014	FAIR VALUE 31/12/2013			VN 31/12/2013
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**89,363**	**-**	**1,798,746**	**-**	**75,167**	**-**	**1,711,035**
1) Fair value	-	86,543	-	1,747,955	-	72,273	-	1,678,665
2) Cash flows	-	2,820	-	50,791	-	2,894	-	32,370
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**89,363**	**-**	**1,798,746**	**-**	**75,167**	**-**	**1,711,035**

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” 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		INVESTMENTS IN FOREIGN OPERATIONS
	SPECIFIC								
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS	GENERIC	SPECIFIC	GENERIC	
1. Financial assets available for sale	60,134	-	-	-	-	X	2,307	X	X
2. Loans	8,230	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	245	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 30/06/2014	**68,364**	**-**	**-**	**-**	**-**	**245**	**2,307**	**-**	**-**
1. Financial liabilities	17,935	-	-	X	-	X	512	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 30/06/2014	**17,935**	**-**	**-**	**X**	**-**	**-**	**512**	**-**	**-**
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 hedges that the Bank has established using asset swap derivatives to sterilize the interest rate risk connected with listed debt securities, in this case BTPs linked to European inflation. 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 2 fixed-rate loans to BCC Solutions and BCC CreditoConsumo hedged with interest rate swaps, 1 fixed-rate security issued by Iccrea BancaImpresa hedged with interest rate swaps and 3 deposits hedged using overnight indexed swaps. Point 4

“Portfolio” regards the positive fair value of overnight indexed swaps used for the macro-hedging of asset portfolios (deposits and repurchase agreements).

The item “financial liabilities” reports the negative fair value of interest rate swaps and interest rate options hedging a mixed-rate bond 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 30/06/2014	TOTAL 31/12/2013
Amounts due to social security institutions and the state	9,556	8,739
Amounts available to customers	65,239	31,099
Items being processed	23,644	31,986
Securities to be settled	52,685	1,167
Definitive items not allocable to other accounts	8,592	38,616
Liabilities for future premiums	14,267	14,277
Payables due to Parent Company in respect of consolidated tax mechanism	11,803	21,094
Tax payables due to tax authorities	5,411	9,681
Payables due to employees	3,702	4,509
Invoices to be paid and to be received	34,241	27,383

Failed purchase transactions	352,150	18,652
Illiquid portfolio items	4,556	-
TOTAL	**585,846**	**207,203**

The sub-items "securities to be settled" and "definitive items not allocable to other accounts" include transactions settled in the first few days of the second half of 2014.

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 30/06/2014	TOTAL 31/12/2013
A. Opening balance	**13,348**	**13,632**
B. Increases	**952**	**651**
B.1 Provisions for the period	209	447
B.2 Other increases	743	205
C. Decreases	**187**	**936**
C.1 Benefit payments	152	827
C.2 Other decreases	35	108
D. Closing balance	**14,113**	**13,348**
TOTAL	**14,113**	**13,348**

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 €13,942 thousand (€14,232 thousand at December 31, 2013).

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 2.75%;
- **financial parameters**: the calculations assumed an interest rate of 2.30%;
- **economic parameters**: the rate of inflation was assumed to be 2.00%, 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 at June 30, 2014 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 30/06/2014	TOTAL 31/12/2013
1 Company pension plans	**-**	**-**
2. Other provisions for risks and charges	**6,714**	**6,579**
2.1 legal disputes	6,116	6,014
2.2 personnel expenses	598	565
2.3 other	-	-
TOTAL	**6,714**	**6,579**

The sub-item "Legal disputes" includes €3,966 thousand for revocatory actions in bankruptcy and €2,048 thousand for litigation and disputes. The sub-item "personnel expenses" includes seniority bonuses for employees, for which the comparative figures for the previous year were consequently restated.

12.4 Provisions – other

	OPENING BALANCE	USES	PROVISIONS	TOTAL 30/06/2014	TOTAL 31/12/2013
Revocatory actions	3,966	-	88	4,054	3,966
Litigation and disputes	2,048	345	359	2,062	2,048
Loyalty bonus	565	92	125	598	565
CLOSING BALANCE	**6,579**	**437**	**572**	**6,714**	**6,579**

As regards the exposure for revocatory actions in respect of Giacomelli Sport, the amount currently provisioned amounts to €2,947 thousand, of which €1,859 thousand for the Iccrea pool, €802 thousand for the Efibanca pool, and €285 thousand for legal costs. As regards the position associated with the former Efibanca pool, a ruling of July 4, 2013, by the Court of Rimini upheld the defense offered by the Bank and ordered the company to pay court costs, which were settled in the amount of €23 thousand (plus VAT and social security contributions).

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 420,000 ordinary shares with a par value of €516.46 each – held by the Parent Company, Iccrea Holding S.p.A, and the Lombardy mutual bank federation – with a total value of €216,913,200 fully paid up. As at the reporting date, the Bank held no treasury shares.

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

	ORDINARIE	ALTRE
A. Shares at the start of the year	**420,000**	**-**
- fully paid	420,000	-
- partially paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in circulation: opening balance	**420,000**	**-**
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	**420,000**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	420,000	-
- fully paid	420,000	-
- partially paid	-	-

14.3 SHARE CAPITAL: OTHER INFORMATION

On December 30, 2011, the Parent Company, Iccrea Holding, made a payment of €80,000 thousand on capital account. The non-interest-bearing, non-repayable sum was classified in item 160 of liabilities under "other reserves".

14.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €106,926 thousand and include: the legal reserve (€48,201 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€38,284 thousand), a reserve (€1,843 thousand) generated 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) generated in the year following the transfer of properties to Immicra S.r.l.; a positive reserve (€234 thousand) generated during the period by the transfer of the "branch services" business unit to Banca Sviluppo; a restricted reserve in respect of the unrealized gains on financial instruments measured using the fair value option (€2,855 thousand) in application of Art. 6 of Legislative Decree 38/2005, as well as the impact of the transition to international accounting standards (€15,378 thousand). Following partial realization and decreases in previous gains, the restricted reserve established pursuant Art. 6 of Legislative Decree 38/2005 declined by €2,402 thousand in the period.

Pursuant to the articles of association, at least three-tenths of net profit for the period is allocated to the legal reserve until such reserve shall be equal to one-fifth of share capital, while the remaining seven-tenths are available for distribution to shareholders and the earmarking of a part of profit that shall be available to the Board of Directors for charity and publicity. The legal reserve has reached one-fifth of share capital.

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	216,913				
Reserves: a) legal reserves	48,201	B	48,201		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	38,284	A – B – C	38,284		
d) other reserves	84,858	A – B – C	4,858		
e) FTA reserve	15,378	A – B – C	15,378		
Valuation reserves: a) financial assets available for sale	68,452		–		
b) cash flow hedges	314		–		
c) actuarial gains (losses) on defined-benefit plans	(1,596)				
Valuation reserves: (Law 342 of 22/11/2000)	47,866	A – B – C (**)	47,866		
Net profit for the period	23,244				
TOTAL	**542,119**				

(*) 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 will 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.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	TOTAL 30/06/2014	TOTAL 31/12/2013
1) Financial guarantees issued	**842,892**	**846,277**
a) Banks	838,356	838,411
b) Customers	4,536	7,866
2) Commercial guarantees issued	**45,655**	**54,580**
a) Banks	45,652	54,572
b) Customers	3	8
3) Irrevocable commitments to disburse funds	**2,005,105**	**1,924,792**
a) Banks	1,460,024	1,657,644
i) certain use	1,256,597	1,427,041
ii) uncertain use	203,427	230,603
b) Customers	545,081	267,148
i) certain use	344,831	67,148
ii) uncertain use	200,250	200,000
4) Commitments underlying credit derivatives: sales of protection	-	-
5) Assets pledged as collateral for third-party debts	**21,607**	**12,067**
6) Other commitments	-	-
TOTAL	**2,915,259**	**2,837,716**

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 reported under “commitments underlying credit derivatives: sales of protection” refers to the notional value net of amounts disbursed and any impairment losses.

Part C

Information on the Income Statement

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 30/06/2014	TOTAL 30/06/2013
1	Financial assets held for trading	271	-	6,267	6,538	6,171
2	Financial assets available for sale	37,630	-	-	37,630	40,592
3	Financial assets held to maturity	39,132	-	-	39,132	48,342
4	Due from banks	39,758	67,546	-	107,304	121,135
5	Loans to customers	412	14,292	-	14,704	15,342
6	Financial assets at fair value	2,834	-	-	2,834	2,857
7	Hedging derivatives	X	X	760	760	573
8	Other assets	X	X	-	-	-
	TOTAL	120,037	81,838	7,027	208,902	235,012

1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	DEBTS	SECURITIES	OTHER TRANSACTIONS	TOTAL 30/06/2014	TOTAL 30/06/2013
1. Due to central banks	(15,434)	X	-	**(15,434)**	**(40,408)**
2. Due to banks	(35,495)	X	-	**(35,495)**	**(47,357)**
3. Due to customers	(32,249)	X	-	**(32,249)**	**(25,487)**
4. Securities issued	X	(79,267)	-	**(79,267)**	**(72,306)**
5. Financial liabilities held for trading	(15)	-	-	**(15)**	**-**
6. Financial liabilities carried at fair value	-	(12,636)	-	**(12,636)**	**(12,296)**
7. Other liabilities and provisions	X	X	-	**-**	**-**
8. Hedging derivatives	X	X	-	**-**	**-**
TOTAL	**(83,193)**	**(91,903)**	**-**	**(175,096)**	**(197,854)**

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 30/06/2014	TOTAL 30/06/2013
a) guarantees issued	**334**	**361**
b) credit derivatives	**-**	**-**
c) management, intermediation and advisory services:	**16,681**	**12,404**
1. trading in financial instruments	5,492	4,458
2. foreign exchange	79	89
3. asset management	116	140
3.1. individual	116	140
3.2. collective	-	-
4. securities custody and administration	3,077	2,946
5. depository services	-	2,085
6. securities placement	6,393	1,450
7. order collection and transmission	1,038	754
8. advisory services	486	482
8.1 concerning investments	-	-
8.2 concerning financial structure	486	482
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	**22,483**	**25,132**
e) servicing activities for securitizations	**-**	**33**
f) services for factoring transactions	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading systems	**-**	**-**
i) holding and management of current accounts	**129**	**152**
j) other services	**142,052**	**129,177**
TOTAL	**181,679**	**167,259**

Fees and commissions for custodian bank operations are reported under item 280 “Profit (loss) after tax of disposal groups held for sale”. They amounted to €2,772 thousand.

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	TOTAL 30/06/2014	TOTAL 30/06/2013
a) guarantees received	**(1,524)**	**(1,524)**
b) credit derivatives	**-**	**-**
c) management and intermediation services:	**(7,682)**	**(3,709)**
1. trading in financial instruments	(602)	(596)
2. foreign exchange	(164)	(51)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(1,747)	(1,814)
5. placement of financial instruments	(5,169)	(1,248)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**(2,809)**	**(4,039)**
e) other services	**(109,551)**	**(99,821)**
TOTAL	**(121,567)**	**(109,093)**

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 30/06/2014	TOTAL 30/06/2013

		DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS
A.	Financial assets held for trading	6	-	5	-
B.	Financial assets available for sale	511	-	138	-
C.	Financial assets at fair value	-	-	-	-
D.	Equity investments	-	X	-	X
	TOTAL	**517**	**-**	**143**	**-**

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 [(A+B) - (C+D)]
1. Financial assets held for trading	**482**	**13,397**	**(27)**	**(59)**	**13,793**
1.1 Debt securities	349	13,333	(19)	(58)	13,605
1.2 Equity securities	102	64	(8)	(1)	157
1.3 Units in collective investment undertakings	31	-	-	-	31
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**2**	**-**	**-**	**2**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	2	-	-	2
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange	**X**	**X**	**X**	**X**	**(2,387)**

differences					
4. Derivatives	**10,181**	**131,773**	**(41,274)**	**(104,010)**	**(313)**
4.1 Financial derivatives:	10,181	131,773	(41,274)	(104,010)	(313)
- on debt securities and interest rates	6,147	124,064	(39,021)	(94,769)	(3,579)
- on equity securities and equity indices	122	691	(39)	(192)	582
- on foreign currencies and gold	X	X	X	X	3,017
- other	3,912	7,018	(2,214)	(9,049)	(333)
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**10,663**	**145,172**	**(41,301)**	**(104,069)**	**11,095**

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 30/06/2014	TOTAL 30/06/2013
A.	**Gain on:**		
A.1	Fair value hedges	6,375	7,046
A.2	Hedged financial assets (fair value)	21,303	16,804
A.3	Hedged financial liabilities (fair value)	525	32,500
A.4	Cash flow hedges	-	358
A.5	Assets and liabilities in foreign currencies	64	-
	TOTAL INCOME ON HEDGING ACTIVITIES (A)	**28.267**	**56,708**
B.	**Loss on:**		
B.1	Fair value hedges	(17,022)	(37,236)
B.2	Hedged financial assets (fair value)	(2,879)	(17,903)
B.3	Hedged financial liabilities (fair value)	(8,821)	(747)
B.4	Cash flow hedges	(81)	-
B.5	Assets and liabilities in foreign currencies	-	-
	TOTAL EXPENSE ON HEDGING ACTIVITIES (B)	**(28.804)**	**(55,886)**
C.	**NET GAIN (LOSS) ON HEDGING ACTIVITIES (A - B)**	**(537)**	**822**

The amounts regard the following transactions:

- hedges of debt securities held by the Bank and issued by Iccrea BancaImpresa, obtained using interest rate swaps;
- hedges of Italian government BTPs, both fixed rate and inflation-indexed, using asset swaps;
- hedges of 5 bonds issued by the Bank using interest rate swaps and interest rate options;
- hedges of loans to BCC Solutions and BCC CreditoConsumo using interest rate swaps;
- hedges of treasury deposits and repurchase agreements using overnight indexed swaps;
- hedges of cash flows on inflation-indexed Italian government BTPs;
- macro-hedges of portfolios of deposits and repurchase agreements using overnight indexed swaps.

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 30/06/2014			TOTAL 30/06/2013		
	GAINS	LOSSES	NET GAIN (LOSS)	GAINS	LOSSES	NET GAIN (LOSS)
Financial assets						
1. Due from banks	98	(15)	83	1	(50)	(49)
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	20,476	(2,302)	18,174	42,133	(14,836)	27,297
3.1 Debt securities	20,474	(2,302)	18,172	42,133	(14,836)	27,297
3.2 Equity securities	2	-	2	-	-	-

3.3 Units in collective investment undertakings	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
TOTAL ASSETS	**20,574**	**(2,317)**	**18,257**	**42,134**	**(14,886)**	**27,248**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	150	(3,435)	(3,285)	415	(390)	25
TOTAL LIABILITIES	**150**	**(3,435)**	**(3,285)**	**415**	**(390)**	**25**

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 sections 3 of assets and 5 of liabilities).

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE: COMPOSITION

	CAPITAL GAINS (A)	TRADING PROFITS (B)	CAPITAL LOSSES (C)	TRADING PROFITS (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
1. Financial assets	**4,354**	**273**	**-**	**-**	**4,627**
1.1 Debt securities	4,354	273	-	-	4,627
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**1,484**	**73**	**(4,753)**	**(105)**	**(3,301)**
2.1 Debt securities	1,484	73	(4,753)	(105)	(3,301)
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Financial and credit derivatives	**-**	**-**	**(3,589)**	**-**	**(3,589)**
TOTAL 30/06/2014	**5,838**	**346**	**(8,342)**	**(105)**	**(2,263)**

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 30/06/2014	TOTAL 30/06/2013
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	**(1)**	**(1,414)**	**-**	**142**	**2,245**	**-**	**11**	**983**	**357**
Impaired receivables acquired									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other receivables									
- Loans	(1)	(1,414)	-	142	2,245	-	11	983	357
- Debt securities	-	-	-	-	-	-	-	-	-
C. TOTAL	**(1)**	**(1,414)**	**-**	**142**	**2,245**	**-**	**11**	**983**	**357**

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

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

8.3 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION

The table 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

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

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 30/06/2014	TOTAL 30/06/2013
1) Employees	**(30,440)**	**(30,319)**
a) wages and salaries	(21,396)	(20,524)
b) social security contributions	(5,295)	(5,611)
c) termination benefits	(1,394)	(1,479)
d) pensions	-	-
e) allocation to employee termination benefit provision	(112)	(49)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(862)	(905)
- defined contribution	(862)	(905)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(1,382)	(1,751)
2) Other personnel	**(15)**	**(15)**

3) Board of Directors and members of Board of Auditors	**(446)**	**(189)**
4) Retired personnel	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	**129**	**153**
6) Reimbursement of expenses for third-party employees seconded to the Company	**(908)**	**(605)**
TOTAL	**(31,680)**	**(30,975)**

9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	TOTAL 30/06/2014	TOTAL 30/06/2013
Information technology	**(29,276)**	**(22,728)**
Property and movables	**(4,376)**	**(4,621)**
Rental and fees	(3,990)	(4,162)
Cleaning	(220)	(261)
Security	(166)	(198)
Goods and services	**(8,494)**	**(8,330)**
Telephone and data transmission	(2,039)	(2,190)
Postal	(2,826)	(2,799)
Asset transport and counting	(157)	(37)
Electricity, heating and water	(577)	(706)
Transportation	(341)	(384)
Office supplies and printed materials	(2,396)	(2,086)
Subscriptions, magazines and newspapers	(158)	(128)
Professional services	**(5,177)**	**(4,842)**
Professional fees	(2,104)	(1,635)
Audit fees	(177)	(117)
Legal and notary costs	(320)	(221)
Court costs, information and title searches	(15)	(45)
Insurance	(433)	(387)
Third-party services	(2,128)	(2,437)
Advertising and entertainment	**(618)**	**(654)**
Association dues	**(2,126)**	**(1,829)**

Other	**(456)**	**(824)**
Indirect taxes and duties	**(5,602)**	**(5,305)**
Stamp duty	(5,527)	(4,730)
Long-term loan tax - Pres. Decree 601/73	(34)	(417)
Municipal property tax	-	(111)
Other indirect taxes and duties	(41)	(47)
TOTAL	**(56,125)**	**(49,133)**

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 30/06/2014	TOTAL 30/06/2013
Net provisions for risks and charges	**(271)**	**169**

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	(1,339)	-	50	(1,289)
- operating assets	(1,339)	-	50	(1,289)
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
TOTAL	**(1,339)**	**-**	**50**	**(1,289)**

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				
A.1 owned	(2,044)	-	-	(2,044)
- generated internally by the Bank	-	-	-	-
- other	(2,044)	-	-	(2,044)
A.2 acquired under finance leases	-	-	-	-
TOTAL	**(2,044)**	**-**	**-**	**(2,044)**

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 30/06/2014	TOTAL 31/12/2013
Other charges	(163)	(64)
TOTAL	**(163)**	**(64)**

13.2 OTHER OPERATING INCOME: COMPOSITION

	TOTAL 30/06/2014	TOTAL 30/06/2013
Property rental income	14	151
Recoveries:		
- Stamp duty	4,419	3,756
- Tax on loan transactions	73	429
Revenues from Milano Finanza Web services and Swift fees	400	400
Revenues for personnel administration services	235	208
Insourcing revenues	3,696	3,627
Other income	758	653
Other Web and Multichannel income	580	773
TOTAL	**10,175**	**9,997**

SECTION 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 210

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

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 30/06/2014	TOTAL 30/06/2013
1.	Current taxes (-)	(14,330)	(19,717)
2.	Changes in current taxes from previous periods (+/-)	735	-
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 (+/-)	(631)	(171)
5.	Change in deferred tax liabilities (+/-)	(17)	-
6.	**INCOME TAXES FOR THE PERIOD (-) (-1+/-2+3+3 bis+/-4+/-5)**	**(14,243)**	**(19,888)**

SUMMARY:	
I.R.E.S.	(11,581)
I.R.A.P.	(3,200)
Recovery of I.R.E.S. in respect of 4% of intercompany interest expense	451
TOTAL CURRENT TAXES	**(14,330)**

SECTION 19: PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS HELD FOR SALE – 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

	TOTAL 30/06/2014	TOTAL 30/06/2013
1. Income	2,779	-
2. Charges	(2,431)	-
3. Net gain (loss) on valuation of the disposal group and associated liabilities	-	-
4. Profit (loss) from realization	-	-
5. Taxes and duties	(148)	-
PROFIT (LOSS)	**200**	**-**

19.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

	TOTAL 30/06/2014	TOTAL 30/06/2013
1. Current taxes (-)	(148)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. INCOME TAXES FOR THE PERIOD (-1+/-2+/-3)	**(148)**	**-**

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

It was not felt necessary to add further information other than that already provided in the previous tables.

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**	**23,244,474**
	Other comprehensive income not recyclable to profit or loss			
20.	**Property and equipment**	**-**	**-**	**-**
30.	**Intangible assets**	**-**	**-**	**-**
40.	**Defined-benefit plans**	**(634,036)**	**174,360**	**(459,676)**
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:**	**(489,692)**	**164,041**	**(325,651)**
	a) fair value changes	(570,743)	186,176	(384,567)
	b) reversal to income statement	81,051	(22,135)	58,916
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	**34,851,043**	**(11,071,086)**	**23,779,957**
	a) fair value changes	50,934,126	(16,609,654)	34,324,472
	b) reversal to income statement	(16,083,083)	5,246,302	(10,836,781)
	- impairment adjustments	-	-	-
	- gain/loss on realization	(16,083,083)	5,246,302	(10,836,781)
	c) other changes	-	292,266	292,266
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**	**33,727,315**	**(10,732,685)**	**22,994,630**
140	**Comprehensive income (item 10+130)**	**33,727,315**	**(10,732,685)**	**46,239,104**

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.

ORGANISATION OF RISK MANAGEMENT

ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

In recent years, the Group has undertaken a gradual process to upgrade its methods and tools for managing credit, market and operational risks, bringing the system into line with external regulations and operational and internal monitoring needs.

In this context, with a view to enhancing the effectiveness of risk management and the efficiency of the overall system of internal controls while responding to developments in the regulatory environment, the market and the organizational, operational and corporate arrangements of the Group, the risk management governance and organizational system was revised in the first half of 2012, providing for the centralization of functional responsibility for risk management operations with the Parent Company and introducing the position of Chief Risk Officer (CRO), who acts as the manager responsible for Group risk management and the liaison for the boards of directors and senior management of Group companies in the field of risk management. This officer develops an integrated and composite vision of the overall set of risks assumed and managed by the companies and by the Group as a whole.

Group Risk Management is responsible for providing recommendations on risk policy, analyzing current and prospective risks, ensuring the quality and effectiveness of monitoring procedures, defining and/or validating risk measurement methods, ensuring the correct assessment of the consequences of new strategies in terms of the risk they generate.

Finally, the ongoing monitoring of risks performed by Risk Management is also intended to ensure that the management controls for each type of risk to which the Group and the individual Group companies are exposed remain effective over time. In this regard, the findings of monitoring activities are systematically reviewed within the decision-making process for identifying consequent risk mitigation and management initiatives.

The risk management organizational model is completed by the organizationally independent risk management activities at Banca Sviluppo, which the CRO coordinates and sets policy.

A decentralized governance model was developed for compliance risk, including money-laundering risk. In the system, the Parent Company unit (the Compliance unit), which is part of the Group Risk Management function, coordinates and sets policy for the independent compliance units at the subsidiaries. The subsidiaries exercise their responsibilities for managing compliance risk, money-laundering risk and operational risks through specific units established at the individual companies. The Operational Risk, Compliance and Anti-Money Laundering Intercompany Committee (the Compliance Committee) was established to support these coordination and policy activities, with the participation of the heads of all the compliance units.

THE GROUP RISK MANAGEMENT UNIT

In the Iccrea Banking Group, a Financial Risks unit was established within the new Group Risk Management structure. It is based at Iccrea Banca, where Group Finance operations are managed. The Financial Risks unit is composed of the following sub-units: Market Risks; ALM and Liquidity Risk; and Bank Counterparties Risk.

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.).

STRESS TESTING

In order to ensure the dynamic monitoring and management of risk, the Group has implemented a stress testing system. Stress testing is an integral part of the risk management system. It is used in two main areas: capital planning and regulatory capital adequacy. It is an instrument considered in the ICAAP. The methods adopted are based on the main risk factors.

Stress testing can be carried out at the level of the Group, business unit or portfolio, and the scenarios used are supervised by Group Risk Management.
Since its creation, the stress testing framework has undergone updating both of the methods deployed and its integration with operations.

SECTION 1 – CREDIT RISK

Qualitative disclosures

1. GENERAL ASPECTS

Credit risk is the possibility that a borrower could default on its obligation. In this case, the economic loss corresponds to the difference between the value of the exposure and any amounts actually recovered.

For an intermediary, credit risk can be:

- direct, in respect of exposures to the customer;
- indirect, in respect of commitments assumed by the customer for guarantees granted to banks in favor of third parties.

In general, the credit risk associated with an exposure is expressed through the components set out in prudential regulations (Bank of Italy Circular no. 263/2006 as updated).

The strategies underpinning the lending activity of the Iccrea Group are based on the following principles:

- pursue balanced growth of loan assets that is consistency with our propensity for risk;
- contain the risk of insolvency through careful analysis of creditworthiness;
- promote the adoption of procedures for assuming, managing and controlling credit risk that are capable of ensuring effective management of those risks.

Iccrea Banca's credit activities were focused on:

- granting loans, credit facilities and operating credit to meet the mutual banks' funding requirements;
- renewing and expanding relationships in the "large corporate" segment while developing the relationship between these entities, the mutual banks and the payment and e-money services offered by the Bank;
- supporting the development of the business of the companies of the Iccrea Banking Group.

In order to increase the effectiveness of the governance of credit risk in respect of bank counterparties and other supervised entities and to strengthen the overall system of internal controls, a **Credit Policy** has been established to govern the roles and responsibilities of the main actors, define the assessment methodologies used to determine creditworthiness used both in assuming and in monitoring and managing risk and the system of limits governing operations, which has been developed in line with the risk appetite framework set out in the new regulations for the internal control system.

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Organizational units involved

The organizational unit of Iccrea Banca SpA 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 Financial Risks unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional and Retail 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, as well as managing substandard loans and registering/controlling loan positions in the information system.

In general, the Lending 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 Financial Risks unit, the Bank Counterparty 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.

Inspections are performed by the Controls unit.

<u>Segmentation of credit exposures</u>

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).

<u>The credit process</u>

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 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

<u>Assessment framework and monitoring</u>

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 ***monitoring framework***, which is similar to the assessment framework to ensure the uniformity of information being provided to units and the decision-making process, consists of a structure system of **early warning signals** represented by **key risk indicators** (KRI) determined using monitoring indicators (financial indicators and internal corporate indicators) and thresholds, which are specified using statistical analyses that characterize the state of alert.

Risk limits

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.

Monitoring systems

The systematic monitoring process, which is aimed at assessing problem positions and tracking developments in positions to ensure correct classification and activate any consequent operational responses, makes use of a specific application. More specifically, the control procedure reports performance problems on a monthly basis, assigning the positions to the various impairment categories. The discovery of anomalies triggers a systematic monitoring and assessment process for loans to customers.

The reporting of exposures subject to a ceiling is carried out daily, using a specific automated procedure.

Within the Group, taking account of the specific experience and specializations of the main subsidiaries, work has continued on developing internal assessment systems for bank counterparties and ordinary customers. The system is maintained and updated constantly by the Financial Risks unit. The findings of the assessments conducted with the assessment system are made available to the line units.

2.3 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. 263, Title II, Chapter 2).

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.

Iccrea Banca uses a "close-out netting" mechanism with mutual banks. The arrangement provides for a specific 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 mechanism is used in contracts governing transactions in unlisted financial instruments (OTC). Iccrea Banca also uses contractual netting arrangements for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see Bank of Italy Circular no. 263, Title II, Chapter 3, Section 10.2).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans department has taken prompt action to implement the electronic systems for dialoguing 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. In addition, work was completed to include securities financing transactions in this system.

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, the Bank continued to enter into Credit Support Annex (CSA) arrangements with its main financial counterparties. At June 30, 2014, credit exposures in respect of transactions in derivatives were covered by security received under 43 CSA contracts with market counterparties and 159 contracts with mutual banks. As for repos, 10 GRMAs were entered into and the business is operational with one counterparty.

2.4 IMPAIRED FINANCIAL ASSETS

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;
- - 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;
- substandard loans: loans to borrowers in a temporary situation of objective difficulty, the removal of which is likely to occur within a reasonable period of time;
- restructured positions: loans for which, owing to the deterioration in the financial condition of the debtor, a pool of banks (or a single bank) agrees to a modification of the original contractual terms and conditions that gives rise to a loss;
- for past-due and over-limit positions, the Bank applies the provisions of the applicable supervisory regulations.

<u>Factors enabling reclassification of impaired exposures to performing status</u>

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.

<u>Assessment of the adequacy of writedowns</u>

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 PERFORMING 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	SUBSTANDARD LOANS	RESTRUCTURED POSITIONS	IMPAIRED PAST DUE POSITIONS	UNIMPAIRED PAST DUE POSITIONS	OTHER ASSETS	TOTAL
1. Financial assets held for trading	-	-	-	-	-	442,621	442,621
2. Financial assets available for sale	-	-	-	-	-	4,179,133	4,179,133
3. Financial assets held to maturity	-	-	-	-	-	3,584,098	3,584,098
4. Due from banks	-	-	-	-	-	35,624,910	35,624,910
5. Loans to customers	22,322	1,407	-	15	2,940	2,114,116	2,140,800
6. Financial assets at fair value	-	-	-	-	-	317,060	317,060
7. Financial assets held for sale	-	-	-	-	3,232	288,256	291,488
8. Hedging derivatives	-	-	-	-	-	5,471	5,471
TOTAL 30/06/2014	**22,322**	**1,407**	**-**	**15**	**6,172**	**46,555,665**	**46,585,581**
TOTAL 31/12/2013	**24,385**	**1,763**	**-**	**3,846**	**8,890**	**42,550,766**	**42,589,650**

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	IMPAIRED ASSETS			PERFORMING			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	
1. Financial assets held for trading	-	-	-	X	X	442,621	442,621
2. Financial assets available for sale	-	-	-	4,179,133	-	4,179,133	4,179,133
3. Financial assets held to maturity	-	-	-	3,584,098	-	3,584,098	3,584,098
4. Due from banks	6,053	6,053	-	35,624,910	-	35,624,910	35,624,910
5. Loans to customers	65,898	42,154	23,744	2,117,593	537	2,117,056	2,140,800
6. Financial assets at fair value	-	-	-	X	X	317,060	317,060
7. Financial assets held for sale	-	-	-	291,495	7	291,488	291,488
8. Hedging derivatives	-	-	-	X	X	5,471	5,471
TOTAL 30/06/2014	**71,951**	**48,207**	**23,744**	**45,797,229**	**544**	**46,561,837**	**46,585,581**
TOTAL 31/12/2013	**79,491**	**49,497**	**29,994**	**41,794,486**	**529**	**42,559,656**	**42,589,650**

LOANS TO CUSTOMERS – EXPOSURES RENEGOTIATED IN COLLECTIVE AGREEMENTS

	PERFORMING								
	RENEGOTIATED EXPOSURES				OTHER EXPOSURES				
	UP TO 3 MONTHS	FROM MORE THAN 3 MONTHS UP TO 6 MONTHS	FROM MORE THAN 6 MONTHS UP TO 1 YEAR	MORE THAN 1 YEAR	UP TO 3 MONTHS	FROM MORE THAN 3 MONTHS UP TO 6 MONTHS	FROM MORE THAN 6 MONTHS UP TO 1 YEAR	NOT PAST DUE	TOTAL 30/06/2014
Gross exposure	-	-	1,858	200	1,788	1,163	-	2,112,584	**2,117,593**
Portfolio adjustments	-	-	8	1	4	7	-	517	**537**
Net exposure	-	-	1,850	199	1,784	1,156	-	2,112,067	**2,117,056**

A.1.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	GROSS EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	6,053	6,053	X	-
b) Substandard loans	-	-	X	-
c) Restructured positions	-	-	X	-
d) Impaired past due positions	-	-	X	-
e) Other assets	36,250,116	X	-	36,250,116
TOTAL A 30/06/2014	**36,256,169**	**6,053**	**-**	**36,250,116**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	-	-	X	-
b) Other	1,967,002	X	-	1,967,002

TOTALE B 30/06/2014	**1,976,002**	**-**	**-**	**1,967,002**

A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	GROSS EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	64,263	41,941	X	22,322
b) Substandard loans	1,620	213	X	1,407
c) Restructured positions	-	-	X	-
d) Impaired past due positions	15	-	X	15
e) Other assets	9,882,365	X	544	9,881,821
TOTAL A 30/06/2014	**9,948,263**	**42,154**	**544**	**9,905,565**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	-	-	X	-
b) Other	1,327,906	X	-	1,327,906
TOTAL B 30/06/2014	**1,327,906**	**-**	**-**	**1,327,906**

C. SECURITIZATIONS AND ASSET DISPOSALS

C.1 SECURITIZATIONS

Qualitative disclosures

There were no outstanding securitizations at the reporting date.

D. 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

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 263/2006, Title II, Chapter 4, Part One).

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.

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.

The assumption and management of market risks is the responsibility of the Finance unit, which manages assets in accordance with the strategic objectives of the Bank in cooperation with the coordination bodies established at the Group level.

In this system, the Finance unit is the competence center and liaison with the money and financial markets of the Iccrea Banking Group and the mutual banking system in general.

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.

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

Qualitative disclosures

A. GENERAL ASPECTS

Within the Iccrea Group, trading activities are carried out by Iccrea Banca, whose interest rate risk position is mainly generated by transactions on interbank markets, trading in derivatives on regulated and OTC markets, and securities trading on the MTS, BondVision, HiMTF and EuroTLX 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

Organization

GOVERNANCE

The market risk management system is designed to analyze and monitor market risks, ensuring that control functions are separate form business units.

The control and monitoring of market risks is carried out by the Financial Risks unit.

Market risks are managed by the Finance department, which manages the Bank's assets in conformity with the strategic objectives of the Bank in cooperation with the coordination bodies established at the Group level.

Within the Finance department, 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;

- *Money Markets*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

Compliance with limits is verified by the Financial Risks unit.

CONTROL AND MONITORING

The monitoring and control of market risks is performed through a comprehensive system of operating limits and risk appetite limits.

The monitoring of risk exposures on trading book positions is carried out by the Financial Risks unit, using metrics in line with market best practice: sensitivity analyses, estimates of Value at Risk and stress tests. The process of monitoring limits entails the measurement and systematic control of exposures assumed in the various portfolios and verification of compliance with VaR limits and other operating limits established under the current system of delegated powers.

Current operating limits are structured in line with the organizational/operational structure of the Finance department and consist of:

- portfolio size limits;
- VaR limits on the trading book;
- limits on the average duration of the trading and operational book;
- position limits by counterparty/group of counterparties and concentration limits (by rating class, sector, country, geographical area);
- size limits by type of financial instrument;
- VaR limits for trading in derivative contracts and the associated securities and on the MTS;
- VaR limits for treasury and foreign exchange operations;
- maximum loss limits for trading in securities and derivatives, treasury operations and foreign exchange;
- warning thresholds for losses on trading in securities and derivatives, treasury operations and foreign exchange.

The overall risk appetite limits are set by the Finance department for trading operations. They are measured using probabilistic metrics such as Value at Risk (parametric VaR with a holding period of 1 day and a confidence level of 99%).

With regard to the Bank's own portfolio, in view of the market conditions that are currently impacting Italian government securities and in order to effectively manage the liquidity raised in the two LTROs with the ECB, investment in Italian government securities, begun in 2013, continued in in the first half of 2014. Volumes were in line with those reported at the end of 2013, complying with the limit of 2.5 years on the average life of the portfolio, minimizing the exposure to interest rate risk and volatility in net interest income. In addition, in order to ensure the structural, ongoing management of liquidity reserves, liquidity holdings were kept at a level of no more than €1.8 billion.

In the first half of 2014, the Financial Risks unit continued its work to strengthen the tools available to manage and monitor those risks.

A major activity in that effort was the ongoing maintenance of the application (the RiskSuite) used in measurement processes and reporting on the risk exposure. That work enabled specific daily monitoring of the trading book and the operation of the Bank.

In addition, the Summit Risk Management project to develop a risk system capable of consolidating – on a daily basis and in an independent calculation environment – the positions in the trading book in order to further improve risk analysis.

With regard to equities, the Bank holds plain vanilla options on highly liquid equity indices (Eurostoxx50, Nikkei225, S&P-MIB) and shares of leading listed companies on the Italian stock exchange, mainly connected with the structuring of indexed bonds of the mutual banks and the BCC Vita life insurance company. The options written were hedged partly with market counterparties and partly with delta hedging. Sensitivity techniques are used for scenarios of instantaneous price changes of up to 24% (in steps of 8%) together with instantaneous volatility changes of up to 25% (in steps of 8%).

Other support offered to the mutual banks in hedging their structured bond issues involved transactions in options on investment funds and units of cash funds for delta hedging purposes. The profiles of these operations are monitored on a daily basis by verifying compliance with the net position limits for each underlying instrument.

REPORTING

The Financial Risks unit prepares the periodic reports for the different risk factors, providing appropriate disclosure to the operating units, senior management and the Board of Directors.

Measuring risk

Market risk is analyzed by measuring the sensitivity of the portfolio to risk factors in order to obtain aggregate exposures and determine how they compare with the corresponding limits.

Since no risk metric can reflect all aspects of market risk, a variety of statistical and other methods are used, in line with market best practice.

The algorithms, methods and sets of indicators used are reviewed and updated periodically to take account of the growing complexity of the market and the sophistication of financial instruments.

METHODS

At the operational level, the risk metrics used can be broken down into the following main types:

- **Value at Risk** (VaR), which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- **Sensitivity and Greeks**, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial trading positions in response to changes in the identified risk factors;
- **Level metrics** (such as, for example, notional amounts and mark to market values), which provide helpful support to the above indicators as an immediately applicable solution;
- **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).

Value at Risk (VaR)

VaR estimates the maximum potential loss that could be incurred, with a specified level of confidence, in normal conditions and within a specified holding period, on the basis of observed market developments over that period.

To calculate VaR, the Iccrea Banking Group 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.

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.

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.

Nominal position

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);

In determining the equivalent position, risk is defined as the value of the different assets converted into an aggregate position that is “equivalent” in terms of its sensitivity to changes in the risk factors under examination.

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.

Backtesting

Group Risk Management conducts backtesting of models on an ongoing basis. The effectiveness of the calculation model must be 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.

Calculating the capital requirement

To quantify the capital requirement for market risk, Iccrea Banca uses the standardized method (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Section I).

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 interest rate risk, the following table reports the results of the sensitivity analysis on value following a shift of +/- 100 bp in the yield curves for the currencies held in the positions.

Figures in millions of euros at June 30, 2014

	ESTIMATED IMPACT ON GROSS INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Iccrea Banca	39.23	-38.00	26.44	-25.60	4.68	-4.53

As regards price risk, the following table reports the results of the sensitivity analysis for scenarios of instantaneous price changes of up to 24% (in steps of 8%).

Figures in millions of euros at June 30, 2014

	ESTIMATED IMPACT ON GROSS INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+24%	-24%	+24%	-24%	+24%	-24%
Iccrea Banca	0.44	-0.48	0.30	-0.32	0.05	-0.06

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

Financial operations with the mutual banks are characterized by a marked predominance of short-term flows, in line with Banca Iccrea's mission, which consists of making the operations of the mutual banks more effective, supporting them and expanding their business through the performance of functions of lending, technical intermediation and financial assistance.

In implementation of the new Group finance model, in 2009 Iccrea Banca was made responsible for funding activities for the companies in the banking group.

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 the Financial Risks unit, 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 the responsibility of the Finance department, which is directly responsible for achieving financial and commercial targets for financial and credit intermediation and which identifies and develops financial services and instruments to support the needs of the mutual banks and manages the Bank's own assets, in compliance with the guidelines set by senior management.

In the context of treasury operations, a quantitative limit is adopted for each currency, which combines the imbalance between loans and funding with the related interest rate maturities.

In 2014, in view of the current challenging economic conditions, funding and lending operations were mainly conducted on the collateralized market.

The pooling service launched for the mutual banks in June 2011 continued. It gives them access to the standing facilities of the ECB, supporting the mutual bank system in the last two three-year auctions held by the ECB, raising €12.6 billion in funding, of which €2.2 billion repaid in 2013.

As for short-term funding with the mutual banks through the daily settlement account, fixed-term deposits and investment accounts, lending mainly took place on the interbank market or to finance the Group companies. Derivatives contracts on interest rates with maturities of less than 12 months were operationally correlated with treasury operations.

With regard to medium/long-term funding, in the first half of 2014, Iccrea Banca placed bonds totaling €386 million, almost entirely through the mutual banks, of which about €200 million in respect of a subordinated bond.

As regards support for the funding operations of the mutual banks, the amount of bonds issued by them and held by the Bank is substantially unchanged.

Within the scope of ALM activities, in order to comply both with regulatory requirements and management needs, the Group has a specific policy setting 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. On a monthly basis, the Financial Risks Unit estimates the exposure to interest rate risk using a current earnings approach, with a short-term time horizon, and a medium/long-term economic value approach for shareholders' equity, adopting a scenario of a +/- 100 basis point shift in interest rates. More specifically, as regards sensitivity analyses concerning the impact of a change in market rates, limits are defined on the change in the prospective net interest income at 12 months and the market value of shareholders' equity. Additionally, stress tests are conducted to identify events or factors that could severely impact the Bank's financial balance. In order to capture the specific features of its portfolio, the Bank has identified a number of highly unfavorable stress situations: more specifically, the Bank uses a combination of the stress tests specified by the Bank of Italy and tests developed internally on the basis of its own risk characteristics.

In accordance with the new IFRS 13, Iccrea Banca conducted a sensitivity analysis to determine the potential impact on the measurement of Level 3 instruments of any changes in the corresponding non-observable market parameters. The analysis found no material impact on the reported situation.

The fair value option was elected for:

- one structured debt security held in portfolio in order to avoid the need to unbundle the embedded derivative;
- two structured bonds issued by the Bank, which are operationally connected with derivatives, in order to avoid an accounting mismatch, thereby creating establishing a natural hedge;
- one structured bond issued by the Bank in order to avoid the need to unbundle the embedded derivative;
- a group of financial instruments in order to significantly reduce the overall mismatching in the accounts. The group consists of:
  - a bond issued by the Bank containing a separable embedded derivative;
  - a debt security issued by Iccrea BancaImpresa held by the Bank;
  - derivatives connected with the above instruments that establish a natural hedge.

As regards price risk, at June 30, 2014 the Bank held €0.5 million in units of real estate investment funds as well as a total of about €6.7 million in shares and other equity investments.

The strategic nature of the investment in real estate investment fund units has not yet made it necessary to select specific price risk hedging policies. In any case, the impact of a prudential assumption of an instantaneous change of 8% in the fair value of the holding is monitored periodically by the Financial Risks Unit.

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, 2014 the following positions were hedged:

- 1 fixed-rate loan issued to BCC Solutions with a remaining liability of €23.6 million, hedged by means of an interest rate swap (IRS);
- 1 fixed-rate loan issued to BCC CreditoConsumo with a remaining liability

of €12 million, hedged by means of an IRS;
- 3 fixed-rate bonds issued by the Bank and hedged by means of an IRS with a nominal value of €61.4 million;
- 3 mixed-rate bonds issued by the Bank and hedged with IRSs and interest rate options (floors) with a nominal value of €597.6 million;
- 3 treasury bonds (BTPs) linked to European inflation hedged with IRSs and options with a nominal value of €620 million;
- 1 fixed-rate security issued by Iccrea BancaImpresa and hedged with IRSs with a nominal value of €180 million;
- 2 fixed-rate deposits hedged with overnight indexed swaps (OISs) with a nominal value of €85million;
- 2 repurchase transactions hedged with OISs with a nominal value of €175.9 million.

In addition, during the period the Bank also undertook the following macro-hedging transaction:
- the hedging of a portfolio of repurchase agreements using OISs with a nominal value of €190 million.

Effectiveness tests were carried out using the dollar offset method for the retrospective profile and the scenario method for the prospective profile.

C. CASH FLOW HEDGING

The Bank has outstanding cash flow hedge transactions involving 2 Italian government bonds (BTPs) linked to European inflation using asset swaps with a nominal value of €78 million. In addition, during the period, a dollar-denominated bond was issued (with a nominal value of €18.1 million). The cash flows have been hedged using cross currency swaps.

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

With regard to interest rate risk, the following table reports the results of the sensitivity analysis on value following a shift of +/- 100 bp in the yield curves for the currencies held in the positions.

	ESTIMATED IMPACT ON NET INTEREST INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Iccrea Banca	7.11	-46.56	4.79	-31.37	0.85	-5.55

Figures in millions of euros at June 30, 2014

As regards price risk, the following table reports the results of the sensitivity analysis for scenarios of instantaneous price changes of up to 24% (in steps of 8%).

Figures in millions of euros at June 30, 2014

	ESTIMATED IMPACT ON NET INTEREST INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+24%	-24%	+24%	-24%	+24%	-24%
Iccrea Banca	59.38	-59.38	40.01	-40.01	7.08	-7.08

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.

SECTION 3 – LIQUIDITY RISK

Qualitative disclosures

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk is managed by the Finance department, which primarily invests liquidity on the interbank market in term deposits. As a result of its role as an intermediary with the settlement system on behalf of the mutual banks, the liquidity of the mutual bank system is concentrated with Iccrea Banca.

In compliance with the provisions of the 4th update of Circular no. 263/2006 of December 13, 2010, with which the Bank of Italy transposed into Italian law the changes introduced by Directive 2006/48/EC on the capital adequacy of banks and investment firms concerning the governance and management of liquidity risk for banks and banking groups, the Bank has updated its rules for managing liquidity risk and modified its system of delegated powers to incorporate the specified indicators and limits.

The main changes regard the formalization by the Board of Directors:

- of the liquidity risk tolerance threshold, represented by the maximum exposure considered sustainable in both normal operating conditions and under stress conditions. The tolerance threshold is explicated by way of:
  - two indicators for the short and medium/long term respectively, at the consolidated level for the Group and the individual level solely for Iccrea Banca, which is responsible for operational management of liquidity risk. The indicators adopted are those envisaged under the new Basel 3 rules: LCR and NSFR. For the short-term indicator, the limit is set at 1.2 in the baseline scenario and 1.0 in the stress scenario. For the medium/long-term indicator, there is a single limit of 0.8;
  - the minimum survival period, which is the number of consecutive days in which liquidity reserves must exceed the sum of net negative cash flows. The minimum level for this indicator has been set at 30 days at the consolidated level;
  - an increase in the minimum liquidity buffer from €1 billion to 1.5 billion, specifying first and second line reserves;
- of a new operational indicator for the Finance department, which is measured using a minimum survival period at the individual level;
- of two new systemic risk monitoring indicators as part of the Contingency Funding Plan;
- of criteria for the determination of intercompany transfer rates in order to take account of systemic risk, issuer risk, interest rate risk, the maturity of loans and the direct and indirect costs of funding;
- of the extension of the scope of application of the rules to Banca Sviluppo;
- of methodologies for determining the aggregates and for calculating the indicators included in the technical annexes that are an integral part of the liquidity policy.

A system of limits has been established as the main instrument for mitigating liquidity risk. It is made up of indicators for monitoring sources of vulnerability associated with liquidity risk in line with the tolerance threshold and commensurate with the nature, objectives and operational complexity of the Group and Iccrea Banca.

The overall system of limits is based on the following limit categories:

- *Risk Appetite Limits*, which represent the maximum exposure considered sustainable in both normal operating conditions and under stress conditions; these limits explicate the tolerance threshold, the specification of which is required under supervisory regulations;

- *Management Operational Limits*, which represent the "operational" implementation of the strategic decisions taken by the Board;
- *Warning Limits*, which represent the value or assessment of an indicator that enables prompt warning that an operational limit is being approached. Breach of this threshold activates a situation of heightened attention but does not necessarily dictate action to return the position below the threshold.

Since October 2008, the liquidity position at the consolidated level has been subject to specific weekly reporting requirements for the Bank of Italy.

Liquidity risk is measured by identifying cash imbalances by maturity band, both in static terms (with a view to identifying actual liquidity strains seen from the characteristics of the account items, through the construction, for each specified time band, of the corresponding gap indicator) and in dynamic terms (using estimation and simulation techniques, aiming to develop the most likely scenarios following changes in the financial variables that can impact the time profile of liquidity).

Measurement and monitoring of the limits and indicators at the individual and overall Group level for short-term and structural liquidity are performed by the Financial Risks unit, which on a daily basis monitors the indicators, the risk appetite limits, the individual management operational limits for Iccrea Banca and the Group level, and the indicators envisaged in the CFP. The analyses and reports are transmitted to management at the Parent Company, Iccrea Banca and Iccrea BancaImpresa. In addition, on a weekly basis it monitors the 1-month liquidity coverage ratio (in both ordinary and stress conditions), the maturity ladder with a time horizon of 12 months and a time horizon of indefinite maturity and the net stable funding ratio.

The Group Risk Management unit participates in the Group Finance Committee and reports to it on developments in the liquidity position and compliance with the limits in place. If the limits are exceeded, Group Risk Management notifies the head of Iccrea Banca's Finance department to agree any corrective actions to restore balance, notifying senior management and the Group Finance Committee.

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 operational risk identification and analysis system which makes it possible to assess exposure to operational risk for each business area.

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 their potential financial impact 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, setting out classification models, analytical methodologies, management processes and support tools;
- a forward looking self-assessment process for determining exposures to operational risks. The results of the assessment are processed using a statistical model that makes it possible to translate the estimates for operational risk exposures into amounts of economic capital;
- a loss data collection process;
- an actuarial quantitative model to analyze time series of operational losses over a six-year time horizon.
-

Quantitative disclosures

In accordance with Bank of Italy Circular no. 263 of December 27, 2006 (New Regulations for the Prudential Supervision of Banks), the Bank has been using the Basic Indicator Approach (BIA) to calculate operational risks for reporting purposes.

In the BIA, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the company's volume of business, more specifically "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 period, was €24,828 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 30/06/2014	TOTAL 31/12/2013
1. Share capital	**216,913**	**216,913**
2. Share premium reserve	**-**	**-**
3. Reserves	**186,925**	**181,691**
- earnings	104,923	99,922
a) legal	48,201	48,201
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	56,517	51,516
- other	82,002	81,769
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**-**	**-**
6. Valuation reserves:	**115,037**	**92,042**
- Financial assets available for sale	68,452	44,680
- Property and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	314	640
- Foreign exchange differences	-	-
- Non-current assets held for sale	-	(8)
- Actuarial gains (losses) on defined benefit plans	(1,596)	(1,136)
- Share of valuation reserves of equity investments accounted for using equity method	-	-
- Special revaluation laws	47,866	47,866
7. Net profit (loss) for the period	**23,244**	**40,028**
TOTAL	**542,119**	**530,674**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	TOTAL 30/06/2014		TOTAL 31/12/2013	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	64,902	(655)	43,465	(2,967)
2. Equity securities	4,224	-	4,186	-
3. Units in collective investment undertakings	-	(20)	-	(12)
4. Loans	-	-	-	-
TOTAL	**69,127**	**(675)**	**47,651**	**(2,979)**

SECTION 2 – EQUITY AND CAPITAL RATIOS

2.1 EQUITY

A. Qualitative disclosures

Equity, risk-weighted assets and solvency ratios at June 30, 2014 have been calculated on the basis of the new 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 equity capital 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 calculable from the capital (over 8 years). The prudential ratios at June 30, 2014 therefore take account of the adjustments required by the transitional provisions for 2014.

At June 30, 2014, equity capital amounted to €631,472 thousand, as against a total capital requirement of €320,704 thousand, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

1. *COMMON EQUITY TIER 1 (CET*1) 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 €518,875 thousand. Applying prudential filters, represented by negative changes in the credit rating, 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 €8,915 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €509,960 thousand. The elements to be deducted consist of intangible assets and the excess of components to be deducted from Additional Tier 1 capital over Additional Tier 1 capital and amount to €8,508 thousand, while the negative impact of the transition on CET 1 comes to €66,856 thousand and is represented by the negative actuarial reserves (IAS 19) and the exclusion of unrealized profits on AFS securities. Therefore, CET1 amounts to €434,596 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 €195,000 thousand and is comprised of a subordinated bond issued by the Bank, net of the redeemable portion. As a result of the transitional provisions, there is a positive filter on 80% of 50% of the unrealized profits on AFS securities amounting to €1,876 thousand, bringing the total Tier 2 capital to €196,876 thousand.

B. Quantitative disclosures*

	TOTAL AT 30/06/2014	TOTAL AT 31/03/2014
A. Common Equity Tier 1 (CET1) capital before the application of the prudential filters	**518,875**	**509,630**
of which CET1 instruments subject to the transitional provisions	-	-
B. CET1 prudential filters (+/-)	**(8,915)**	**(12,802)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**509,960**	**496,828**
D. Elements to be deducted from CET1	**(8,508)**	**(8,936)**
E. Transitional system - Impact on CET1 (+/-)	**(66,856)**	**(57,437)**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**434,596**	**430,455**
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	195,000	195,000
of which Tier 2 instruments subject to the transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional system - Impact on T2 (+/-)	**1,876**	**1,828**
P. Total Tier 2 (T2) capital (M - N +/- O)	**196,876**	**196,828**

Q. Total equity capital (F + L + P)	**631,472**	**627,283**

*For reasons of consistency and to enable comparison of the information as a result of the introduction of the new Basel 3 regulatory framework starting from January 1, 2014, the table showing the Bank's equity capital uses the figures at March 31, 2014 for comparison, rather than those at December 31, 2013.

2.2 CAPITAL ADEQUACY

A. Qualitative disclosures

The capital ratios at June 30, 2014 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.

B. Quantitative disclosures*

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/REQUIREMENTS	
	TOTAL AT 30/06/2014	TOTAL AT 31/12/2013	TOTAL AT 30/06/2014	TOTAL AT 31/12/2013
A. EXPOSURES				
A.1 CREDIT AND COUNTERPARTY RISK	**70,837,419**	**52,268,452**	**2,909,212**	**2,526,395**
1. Standardized approach	70,273,646	51,666,823	2,590,919	2,163,600
2. IRB approach	-	-	-	-
2.1 Foundation	-	-	-	-
2.2 Advanzed	-	-	-	-
3. Securitizations	563,773	601,629	318,292	362,795
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**232,737**	**151,584**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING			**14,374**	**-**
B.3 REGULATORY RISK			**-**	**-**
B.4 MARKET RISKS			**40,490**	**20,261**
1. Standardized method			40,490	20,261
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**33,103**	**24,828**
1. Basic indicator approach			33,103	24,828
2. Standardized approach			-	-
3. Advanced measurement approach			-	-
B.6 OTHER COMPONENTS			**-**	**-**
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**320,704**	**196,673**
C. EXPOSURES AND CAPITAL ADEQUACY				
C.1 RISK-WEIGHTED ASSETS			**4,008,805**	**2,458,413**
C.2 CET1 CAPITAL RATIO			**10.84%**	-
C.3 TIER1 CAPITAL RATIO			**10.84%**	**15.52%**
C.4 TOTAL CAPITAL RATIO			**15.75%**	**17.53%**

*The figures at December 31, 2013 were calculated consistent with the regulations in effect at that date.

Part G

Business combinations

PART G – BUSINESS COMBINATIONS

No business combinations pursuant to IFRS 3 had been carried out as of June 30, 2014.

With regard to business combinations under common control, the instrument for the transfer of the "branch services" business unit from Iccrea Banca to Banca Sviluppo was executed on February 26, 2014, with the transfer taking effect as from April 5, 2014. For more information, please see the discussion of the transaction in the Interim Report on Operations.

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 30/06/2014
Compensation and other remuneration (1)	1,135
Post-employment benefits (2)	19

(1) Includes compensation paid to the General Manager and the Deputy General Managers.

(2) Represents the accrual for the year to the provision for termination benefits calculated in accordance with the applicable regulations.

	TOTAL 30/06/2014
Compensation of members of Board of Auditors	95

LOANS AND GUARANTEES GRANTED:

	TOTAL 30/06/2014
- Members of Board of Directors	818
- Members of Board of Auditors	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

NAME OF PARENT COMPANY
ICCREA HOLDING S.P.A.

REGISTERED OFFICE
VIA LUCREZIA ROMANA, 41/47
00178 ROME

PARENT COMPANY - KEY FIGURES AT DECEMBER 31, 2013 (THOUSANDS OF EUROS)

BALANCE SHEET	TOTAL 31/12/2013
Assets	**1,328,771**
Liabilities	**88,485**
Share capital	1,103,186
Legal reserve	28,927
Treasury share reserve	319
Extraordinary reserve	64,763
Other reserves	3,374

Valuation reserve	7,459
Issue premiums	2,569
Treasury shares	(319)
Net profit (loss) for the period	30,008
Shareholders' equity	**1,240,286**

INCOME STATEMENT	TOTAL 31/12/2013
Net interest income	1,573
Net commission income	26
Gross income	60,138
Net income (loss) from financial operations	59,634
Operating expenses	(17,668)
Gain (loss) of equity investments	(15,190)
Net profit (loss) for the period	**30,008**

The Parent Company performs management and coordination activities.

Please note that the instrument for the transfer of the "branch services" business unit from Iccrea Banca to Banca Sviluppo was executed on February 26, 2014, with the transfer taking effect as from April 5, 2014. For more information, please see the discussion of the transaction in the Interim Report on Operations.

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
BCC Risparmio e previdenza	-	-	-	-	372
Iccrea BancaImpresa	64,145	317,060	14,299,685	-	22,654
BCC Gestione Crediti	-	-	-	2,553	172
BCC Solutions	-	-	-	24,681	2,376
BCC Retail	-	-	-	785	-
BCC Servizi Informatici	-	-	-	-	418

Iccrea Holding	-	-	-	-	12,773
BCC Beni Immobili	-	-	-	25	17
BCC Lease	-	-	-	190,827	18
BCC CreditoConsumo	-	-	-	428,055	60
BCC Factoring	-	-	-	277,931	56
Banca Sviluppo	159	-	490,879	-	263
TOTAL	**64,304**	**317,060**	**14,790,564**	**924,857**	**39,179**

LIABILITIES	P10_DUE TO BANKS	P20_DUE TO CUSTOMERS	P30_ SECURITIES ISSUED	P40_FINANCIAL LIABILITIES HELD FOR TRADING	P50_FINANCIAL LIABILITIES AT FAIR VALUE	P100_ OTHER LIABILITIES
BCC Risparmio e previdenza	-	3,153	-	-	-	10
Iccrea BancaImpresa	221,758	-	-	5,606	-	561
BCC Gestione Crediti	-	-	-	-	-	33
BCC Solutions	-	1,081	-	-	-	5,277
BCC Retail	-	40	-	-	-	-
BCC Servizi Informatici	-	12,657	-	-	-	6,379
Iccrea Holding	-	157,686	-	-	-	15,311
BCC Beni Immobili	-	-	-	-	-	-
BCC Lease	-	-	-	-	-	55
BCC CreditoConsumo	-	1,493	-	-	-	17
BCC Factoring	-	1,799	-	-	-	6
Banca Sviluppo	87,297	-	99,005	-	5,035	40
TOTAL	**309,055**	**177,909**	**99,005**	**5,606**	**5,035**	**27,689**

INCOME STATEMENT	E10_INTEREST AND SIMILAR INCOME	E20_INTEREST AND SIMILAR EXPENSE	E40_ FEE AND COMMISSION INCOME	E50_ FEE AND COMMISSION EXPENSE	I80_ NET GAIN (LOSS) ON TRADING ACTIVITIES	I150_ ADMINISTRATIVE EXPENSES	I190_ OTHER OPERATING EXPENSES /INCOME
BCC Risparmio e previdenza	-	(5)	107	-	-	-	290
Iccrea BancaImpresa	68,347	(363)	814	(1)	25,255	(32)	2,392
BCC Gestione Crediti	47	(7)	4	-	-	-	70
BCC Solutions	559	(15)	-	-	-	(6,470)	576
BCC Retail	6	-	-	-	-	-	-
BCC Servizi Informatici	-	-	69	-	-	(5,923)	349
Iccrea Holding	-	(613)	-	-	-	(1,741)	433
BCC Beni Immobili	-	(1)	-	-	-	-	21
BCC Lease	2,782	(3)	28	-	-	(189)	35
BCC CreditoConsumo	7,370	(21)	40	-	-	(27)	58
BCC Factoring	1,601	(1)	6	-	-	(14)	19
Banca Sviluppo	1,774	(2,319)	350	(267)	37	-	52
TOTAL	**82,486**	**(3,348)**	**1,418**	**(268)**	**25,292**	**(14,396)**	**4,295**

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 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, E-Bank and CAIS Applications. 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-14	JUN-13	JUN-14	JUN-13	JUN-14	JUN-13	JUN-14	JUN-13
Net interest income	32,311	36,498	462	127	1,034	543	33,807	37,167
Net service income	30,772	35,728	50,227	48,510	3,686	6,223	84,684	90,461
Net fees and commissions	*7,500*	*5,711*	*50,227*	*48,510*	*3,172*	*6,052*	*60,899*	*60,274*
Result Trading Hedging repurchase/dividends	*23,272*	*30,016*	-	-	*514*	*171*	*23,785*	*30,187*
TOTAL REVENUES	**63,081**	**72,225**	**50,688**	**48,637**	**4,720**	**6,766**	**118.490**	**127,628**
Administrative expenses	19,116	16,172	39,519	35,217	29,170	28,654	87,805	80,043
Net adjustments of property and equipment and intangible assets	536	587	1,286	1,315	1,511	1,440	3,333	3,342
Other operating expenses/income	60	2	4,529	3,720	4,637	4,106	9,226	7,827
TOTAL OPERATING EXPENSES	**19,592**	**16,757**	**36,275**	**32,813**	**26,045**	**25,989**	**81,912**	**75,559**
GROSS OPERATING INCOME	**41,344**	**55,468**	**14,413**	**15,825**	**-18,542**	**-19,223**	**37.215**	**52,070**

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, 2014, amounted to €33.8 million, down 9% on June 30, 2013 (€37.2 million). Net interest income at June 30, 2014 includes the impact of items associated with the assets held for sale of custodian bank operations. The decline is attributable to:

- a reduction in the contribution of the investment portfolio, where securities were sold during the period to take advantage of opportunities generated by market volatility and the associated liquidity generated, which was reinvested a lower market rates;
- the interest rate effect of the broad decline in reference rates.

Net service income, which came to €84.7 million at June 30, 2014, includes €60.9 million from net fees and commissions and other income, and €19.4 million from trading operations and from dividends. The rise in net fees and commissions and other income from €60.3 million in June 2013 to €60.9 million in June 2014 is primarily associated with the rapid growth in all electronic money segments.

The decrease in net income from financial operations from €30.2 million in June 2013 to €23.8 million in June 2014 is mainly due to gains on the disposal of financial assets available for sale.

Administrative expenses totaled €87.8 million at June 30, 2014 and include personnel expenses in the amount of €31.7 million (€31 million in June 2013) and other administrative expenses in the amount of €56.1 million (€49.1 million the previous year).

Total value adjustments amounted to about €3.3 million at June 30, 2014, in line with the year-earlier period.

Other operating income, reported under operating expenses, amounted to €9.2 million at June 30, 2014, compared with €7.8 million a year earlier.

As a result of the foregoing, the gross profit from ordinary operations at June 30, 2014, came to about €37.2 million, a decrease of about €14.9 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-14	DEC-13	JUN-14	DEC-13	JUN-14	DEC-13	JUN-14	DEC-13
Loans to customers	2,145	1,769	-	-	76	83	2,222	1,852
Due from banks	35,912	32,828	-	-	-	-	35,912	32,828
Financial assets and equity investments	8,554	8,017	43	52	427	245	9,024	8,314
TOTAL LENDING	**46,611**	**42,614**	**43**	**52**	**503**	**328**	**47,158**	**42,994**
Due to customers	15,694	14,895	393	393	3	4	16,090	15,292
Due to banks	24,118	21,393	-	-	-	-	24,118	21,393
Other financial liabilities	6,187	5,551	5	-	758	758	6,950	6,309
TOTAL FUNDING	**45,999**	**41,839**	**398**	**393**	**761**	**762**	**47,158**	**42,994**

Secondary reporting basis

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.