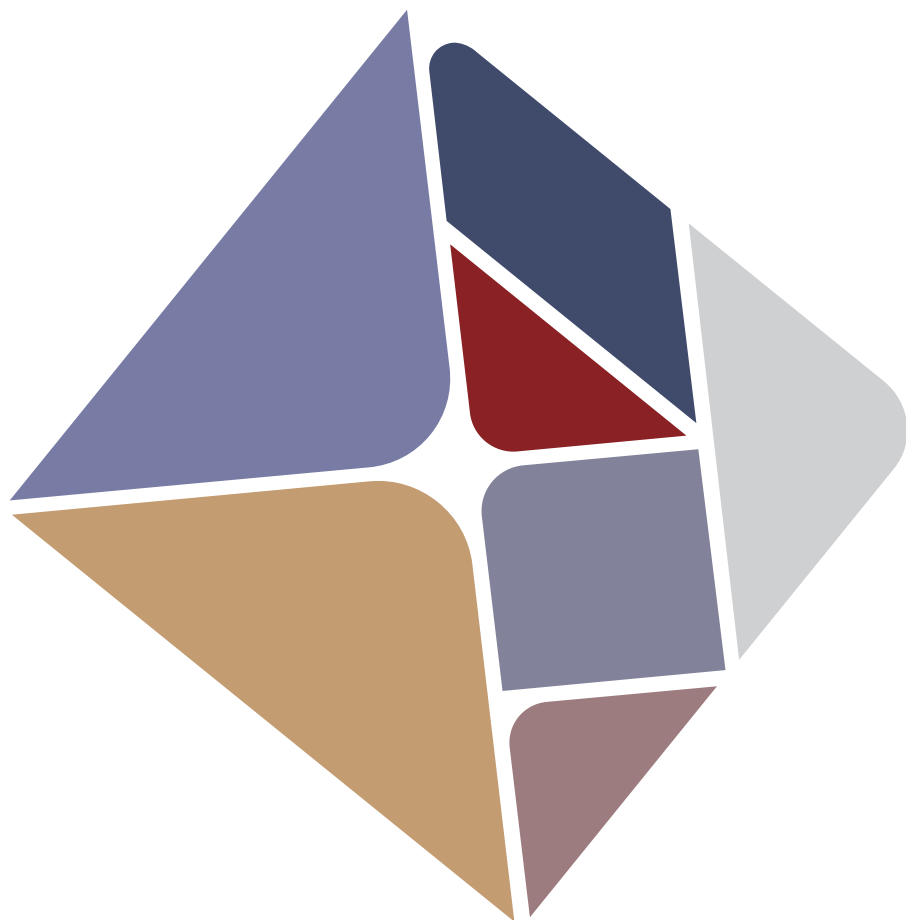


*Annual Report*



**2017**



*Report and Separate Financial Statements at December 31, 2017  
of the Parent Company Iccrea Banca S.p.A.*

*Report and Consolidated Financial Statements at December 31, 2017  
of the Iccrea Banking Group*

**Iccrea Banca S.p.A.**

Central Institution of the Mutual Banking Industry  
Parent Company of the Iccrea Banking Group  
Registered Office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome, Italy  
Share capital: €1,151,045,403.55 fully paid up  
Company reg. and Tax ID no. 04774801007 - R.E.A. of Rome no. 801787  
Entered in the Register of Banking Groups at no. 20016  
Entered in the Register of Banks at no. 5251  
ABI bank ID no. (8000)



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# **REPORT ON OPERATIONS**

January 1 – December 31, 2017





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## **CORPORATE BOARDS**

for 2016-2018

Elected by the Ordinary Shareholders' Meeting of July 12, 2016

Officers designated by the Board of Directors at the meetings of October 4, 2016 and October 27, 2016

### **BOARD OF DIRECTORS**

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

### **EXECUTIVE COMMITTEE**

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

### **BOARD OF AUDITORS**

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

### **SENIOR MANAGEMENT**

RUBATTU Leonardo	General Manager
BOCCUZZI Giovanni	Vice General Manager

## INTRODUCTION

Dear shareholders,

In 2017 the world economy returned to strong, synchronized growth in the most advanced economies and the emerging countries alike. This strengthening, which was also supported by expansionary monetary policy conditions, was sustained by the moderate recovery in investment, the increase in manufacturing output and the brisker pace of international trade. The labor market was also impacted positively. Growth also strengthened in the euro area, thanks above all to a recovery in household consumption and industrial production, with positive repercussions on investment and the labor market as well.

Macroeconomic conditions are also improving steadily in Italy, although the recovery in this country remains the weakest among the main European competitors. Encouraging signs have also come from a revival in business confidence, with positive effects on investment spending. GDP has begun to expand again, although the general underlying weakness of inflation persists.

In this context, the national banking market - affected by substantial new regulatory developments – has experienced a tangible improvement. Loans to households and firms have increased, particularly in manufacturing and the service sector. At the same time, credit quality has improved further, thanks to the decline in the flow of new impaired loans as a proportion of total lending, which has now returned below pre-crisis levels. The ratio of impaired loans to total lending decreased, primarily thanks to the disposal of non-performing positions. The main national banks are undertaking major initiatives to reduce impaired exposures, seeking to achieve risk levels in the medium term that are in line with the European average and, at the same time, to meet the expectations of the market and the supervisory authorities. However, work remains to improve profitability.

In this regard, it is only necessary to recall that in 2017 the EBA – in coordination with the ECB – conducted a European-wide exercise aimed at acquiring detailed information on the various aspects of the financial statements of European banks to make them comparable (the so-called “Transparency Exercise”). The exercise, which involved 132 banking groups in 25 euro-area countries, showed that at June 30, 2017 the average NPL ratio of European banks was 4.5%, reflecting the progress made by the banks in cleaning up their balance sheets. However, the exercise also showed that about a third of the euro-area countries, including Italy, still have NPL levels of more than 10%. Despite this activity to reduce exposures, the financial soundness of the European banking sector improved, as underscored by a slight increase in capital ratios. Profitability, although benefiting from cost rationalization, still remains a weak point. The banking industry struggles to generate sufficient margins through traditional intermediation activity against a background of low interest rates and greater competitive pressure on revenues in traditional business segments (e.g. payment systems) from new competitors whose business is characterized by a high level of technological innovation (FinTech companies). To cope with this, some European banks have launched digitization projects to improve their operational efficiency in the traditional intermediation segment.

In this reference framework, the new Mutual Banking Group that we are preparing to establish is no doubt required to be more committed to adopting the best national and international practices, strengthening its specific competitive position with a sharp improvement in its risk position and decisive measures to increase allocative efficiency. We must do this in order to be able to measure up against the leading national operators (we will become the 3rd- or 4th-ranked Italian banking group), while simultaneously lending effective support to strengthening the role of the mutual banks in their territories. Let us not forget that the 2016 reform itself emphasized the values of mutuality, which have not been called into question. It is up to us to develop the principles of cooperation that distinguish us in an effective and innovative way. If activated well, they are distinctive and competitive factors in the national market, our primary target.

With this in mind, in 2017 we activated a series of projects and working groups involving about 800 mutual banking professionals in a joint effort to prepare all the documentation necessary to present our application to the supervisory authorities. At the same time, we launched a number of projects designed to enable us to start off on the right foot once the supervisory authorities grant authorization, preparing rules, processes and procedures that - given existing constraints – will make the operations of a group like ours as efficient as possible, despite an unequalled level of complexity: we will work with a legal model that is unique not only in Italy but also in Europe. We will have to work together to coordinate and consolidate what are initially estimated to be at least 170 differ-

ent legal entities, between banks, financial companies and instrumental companies, within the Mutual Banking Group.

To best accomplish the tasks that primary and secondary legislation, the market and our shareholders have entrusted us with, we will have to agree the main strategic decisions of the Group, focusing on the common interest and the value of cooperation, without giving primacy to the specific needs of the individual entities involved in the project.

The preparatory activities for the establishment of the Mutual Banking Group have been carried out in a context of significant regulatory and market changes that are radically transforming banking. We must necessarily adapt in order to continue to create value for our members and customers. By way of example, let me review some of these:

- the application from January 1, 2018 of the new accounting standard IFRS 9, which – in bringing accounting rules closer to prudential rules, incorporating the effects of expected loss over the entire life of a credit relationship – introduces a significant discontinuity in the approach to granting and managing loans themselves;
- the continuous action of supervisory authorities calling on banks, especially Italian ones, to improve asset quality through effective action to reduce the stock of problem loans and to revise their models and policies for managing them. Just last March the European Commission presented a package of measures aimed at enabling a more rapid reduction in non-performing loans in the banking sector, in continuity with the actions implemented in recent years by the Member States, the supervisory authorities and banks that have led to a progressive reduction in NPLs in Europe. In the same month, the ECB published a new measure (the “Addendum” to the Guidance to banks on non-performing loans issued last year) with which it introduced a temporal approach to the writing down of impaired loans. These rules should prompt reflection on the ways in which we will have to take a more proactive approach to managing the impaired loans already present in our portfolios or those that will be generated in the coming years;
- regulatory developments increasingly directed at increasing competition in the sector, favoring the entry of non-bank entities into areas of activity heretofore the exclusive preserve of banks;
- the introduction of new rules on investment services (so-called Mifid II) which, in addition to standardizing regulation at the European level, are also aimed at ensuring adequate levels of protection for investors, focusing even stronger attention on safeguarding the customer’s interests and ensuring that customers are fully aware of the rights and obligations deriving from the services rendered by the intermediaries. These rules are an opportunity and not a constraint for the mutual banking world, precisely because of our proximity to shareholders and customers, which has historically taken a front seat to speculative activity.

It is increasingly clear that the traditional business model of the mutual banks and their risk management approach need to be rethought. In order to continue to play the role of local institutions supporting their communities, a structural revision of the approach to the supply of products and services is required, seizing the opportunities offered by the legislative innovations referred to here. An informed assessment of the rationalization of overhead costs must also begin.

In particular, in our lending operations, in light of the new accounting and prudential regulations, we must adopt approaches that increasingly take account of the quality of potential borrowers and effective pricing policies. In financial intermediation and in the provision of services, we must follow the continuous evolution of the needs of our customers, with a view to developing customer relationships, with the identification and placement of products that, although innovative, are always appropriate to the typical risk profile of our customers. It will be necessary for our relationship managers to have an increasingly active and professional approach, with a view to increasing overall value for the Group. This further leap in quality will allow us to make best use of the extensive network we have available: only if leveraged properly, will the close proximity to local communities that has always distinguished us function as a competitive advantage in the future rather than a source of weakness.

Given the high level of impaired loans that today characterizes the mutual banking system, we must commit ourselves to implementing targeted actions aimed at significantly reducing those positions, implementing the most appropriate strategies that in any given circumstances will maximize their value. Efficient deconsolidation and proactive rather than passive approaches to the management of litigation and relationships with customers in difficulty are the new challenge of the future.

Agreeing on the common interest, discipline, efficiency and selective capacity are the key words that best summarize the substance of this break with the past, which can no longer be postponed. Only thus can we achieve economies of scale and return to levels of sustainable profitability, strengthen a sound capital base and adopt a more risk-sensitive approach. Without such action, the ability to generate value for the benefit of the communities and territories in which the mutual banks operate would be undermined.

Even in the presence of a very challenging project and in the midst of the intense dialogue being conducted with the authorities in view of the establishment of the Mutual Banking Group, in 2017 Iccrea continued to support the mutual banks and the social and economic enterprises they sustain in their local markets. The effort to improve asset quality also continued, despite the high extraordinary costs recorded during the year just ended.

The Group has in fact strengthened the range of solutions for the benefit of the mutual banks and their customers, including new initiatives in asset management and supporting business. The Group was operational in diverse business segments, divided among the three divisions (Corporate, Retail and Institutional), thus ensuring full coverage of mutual bank needs and the considerable diversification of its business model. The presence and further development of the product catalogue available to the new Mutual Banking Group, combined with the digitization of processes that has already started, will contribute to creating new value for all participants.

During the past year, the Group expanded the supply of credit and facilitated the access of mutual banks to the capital market, thus promoting stability and growth in a particularly challenging economic environment. As you know, the central finance role played by the Group enabled all the mutual banks to access TLTRO funds for their corporate and retail customers of the Group. This activity, pursued with energy by the internal units of Iccrea, generated undoubted value for all the mutual banks that took advantage of the service.

In 2017, the ECB continued its supervisory activities with our Group. Between April and June, an inspection was conducted on "governance and management of financial risks" at the consolidated level, the results of which found a low level of exposure to financial risks and an organizational structure and a system of internal controls which received a general positive assessment. Furthermore, from May to September 2017 the Bank of Italy, which is responsible for compliance issues, conducted an inspection at the subsidiary BCC Risparmio & Previdenza, which ended with partially favorable results.

Following the intensive supervisory activity, the European Central Bank's evaluation of the Banking Group, expressed in the SREP decision notified in November 2017, only slightly increased the capital requirements (0.25%), which generally remain on the levels set for the main national players, while asking the Group to present a strategic plan for impaired loans. Iccrea was also asked, especially in the light of the establishment of the new Mutual Banking Group, to adopt stringent corporate governance rules and to develop customized arrangements to control conflicts of interest, given the sensitive decisions that the future Parent Company will be making in respect of the Group's affiliated institutions. Iccrea was also asked to develop a management structure capable of exercising effective control over members. This guidance is certainly welcomed in view of the new role that the Parent Company will take on.

Dear shareholders, all future challenges can only be tackled with a strategic vision that puts the interest of our Group, our shareholders and customers at the center of our action. To this end, the contribution of all of us in terms of commitment, expertise and responsibility is indispensable. Setting specific objectives, streamlined operations, efficiency and innovation are the new lifeblood for the future of mutual banking. This is the only way to maintain strong ties with our shareholders and customers, continuing to create value for the areas in which we operate and at the same time projecting us onto the national and European stage.

## 1. OPERATING CONDITIONS

### The international and Italian macroeconomic environment<sup>1</sup>

After the slowdown between 2014 and 2016, in 2017 **world economic growth** strengthened substantially and, for the first time in the current economic cycle, in a synchronized manner across the economies of the most advanced countries and the emerging markets. This strengthening, which was also supported by expansionary monetary policy conditions, was sustained by the moderate recovery in investments, the increase in manufacturing output and the brisker pace of international trade, especially in the second half of the year. The labor market was also impacted positively.

More specifically, international trade expanded by 4.4% on an annual basis (+1.5% in 2016) and world output accelerated exponentially, thanks to the significant gains recorded in the advanced economies (+2.9%, from +0.2% in 2016) and the consolidation of the emerging economies (+3.9% on average, from +3.4%). World inflation decelerated (to +3.6% annually, from +3.8%), returning to December 2016 levels. Oil prices continued the gradual recovery begun in 2016, driven by political tensions in Saudi Arabia, with the price of Brent standing at \$66.5 a barrel in December 2017 (\$58.5 at the end of 2016, \$51.2 at the end of 2015). According to estimates published in January 2018 by the International Monetary Fund (*World Economic Outlook Update*), the world's Gross Domestic Product (GDP) increased by 3.7% over the previous year, a marked increase over the growth rate record in 2016 (around 3%); the figure is expected to improve further in the coming years (3.9% in both 2018 and 2019). However, the outlook for the future is clouded by uncertainties connected with: (i) possible increases in volatility on financial markets, associated with the intensification of geopolitical tensions and better-than-expected macroeconomic developments, which could accelerate the normalization of monetary policies, with a consequent rise in rates; and (ii) the possible spread of protectionist initiatives that could have a negative impact on world trade, as foreshadowed by the most recent decisions of the US Administration.

Developments in the world's main macro-areas are described below.

In the **United States**, the economy continued its consolidating expansion in 2017. Annualized real GDP growth accelerated in the second half of 2017, recording average growth (+2.3%) that significantly outpaced 2016 (+1.5%), although the trend is still slower than before the crisis. In general, business confidence remains high, with a consequent recovery in investment. This drove a persistent increase in economic activity, with a strong acceleration in the fourth quarter of 2017 (+3.5% on average compared with 2016) and an increase in capacity utilization (+1% on average compared with 2016), with a peak recorded at the end of the year. Domestic demand also contributed to this performance, with an increase in consumption buoyed by favorable conditions on the labor market, a steady increase in net wealth and expectations of a reduction in the tax burden following the reforms initiated in the country. Despite the unemployment rate falling to its lowest level in recent years in December 2017 (4.1%, with the rate dropping from 4.4% to 4.0% over the course of the year), wage growth has not accelerated as expected, helping to keep inflation moderate (+2.1%, as in 2016, slightly above the target level set by the Fed). These conditions enabled the US central bank to continue its gradual tapering of the expansionary monetary policy stance of the last decade, with an increase in official rates.

The persistence of particularly low interest rates compared with the past and the weakness of the US dollar, together with the rise in commodity prices and the improvement in global trade, to which the emerging countries are historically more closely linked than the advanced economies, have created the conditions for an overall improvement in the macroeconomic fundamentals of the **emerging and developing countries**. In China central government estimates put GDP growth at 6.9% in 2017, faster than the expectations of analysts (6.8%) and the target set by the government (6.5 %), with the outlook for 2018 not far from this level. The inflation rate stood at around 3%. In India, GDP grew by 6.6% while the inflation rate was 3.2%, still high levels although decelerating compared with 2016. In any case, for the current year, expectations are for further growth of the two indicators.

<sup>1</sup> Sources: Bank of Italy, *Economic Bulletin*; Bank of Italy, *Speech by Governor Ignazio Visco at the 24th ASSIOM FOREX Congress, February 2018*; European Central Bank, *Economic Bulletin*; Prometeia, *"Rapporto di Previsione"*, December 2017; Banca d'Italia, *Flusso di ritorno statistico BASTRA*.

Initial positive signs also emerged from the economies of Russia and Brazil, which, following the recession in 2014-2015, posted moderate GDP growth (around 1%) according to initial estimates.

In the **euro area**, GDP growth accelerated in the third and fourth quarter of 2017 compared with the first half of the year (from +2.1% to +2.7% at the end of the year), with an annual average of 2.4%. Despite some divergence from country to country, inflation to December 2017 was moderate (around 1.5%). This result - which benefited from the especially positive performance of Spain, Germany and, to a lesser extent, France - reflected: (i) household consumption, which recorded pre-crisis growth, with increased retail sales (an annual average of 2.6%, compared with 1.5% in 2016) benefiting from the improvement in labor market conditions (the unemployment rate dropped to around 9%, a reduction of about 1 percentage point compared with 2016) and greater purchasing power fueled by low inflation, which stood at 1.4% at the end of the year (+1.1% at the end of 2016); (ii) industrial production, which accelerated in the second half of the year (+3.0% average growth in 2017, compared with +1.5% in 2016); and (iii) an increase in firms' production capacity, boosted by still favorable financing conditions and growing domestic and international demand. In this environment, while maintaining its expansionary monetary stance, the ECB started to adjust its monetary policy choices to take account of the improved macroeconomic conditions. The first reduction in purchases of securities from €80 billion to €60 billion was followed by the confirmation of the continuation of the asset purchase program in January-September 2018, while reducing the volume of purchases to €30 billion a month. Any decisions on an increase in official rates have been postponed until after the expiry of the asset purchase program.

Macroeconomic conditions are steadily improving in **Italy** as well, although the recovery remains the weakest among the main European countries. GDP growth has been faster than expected, although it is still moderate, closing 2017 with an annual increase of 1.6% (+1.0% in 2016). At the same time, other signs of an intensification in economic activity also emerged. In December industrial production increased by an annualized 4.9% (an annual average of +3.0%, from +1.9% in 2016), while business and consumer confidence improved despite the continuing fragility of the Italian labor market. While declining, the unemployment rate remains high and above the euro-area average (around 11%, down from 11.8% in 2016). However, despite this unfavorable economic situation, which has produced weak wage growth (an annual average of +0.4%), disposable income and consumption grew more rapidly (+2.1% and +2.2%, respectively). While in past years, the recovery was driven mainly by household spending, in 2017 there was more tangible evidence of revival in industrial sectors (with a recovery in the summer months of investment in machinery, equipment and, to a lesser extent, transport equipment) and in services, primarily tourism, which posted strong results for the year. On the other hand, the inflation rate slowed in the second half of the year, settling below the euro-area average (an annualized 0.9% in December, with an annual average of 1.2%).

### The Italian banking system

In 2017 growth in credit to the private sector resumed in Italy, strengthening significantly in the second half of the year, given the positive trend in lending to both consumer households and businesses. In addition to the recovery in investment, this trend was also likely to have reflected the incentives to lending provided for in the targeted longer-term refinancing operations (T-LTRO), which intensified at the end of the year in response to the approaching end of the reference period (January 2018) for the calculation of the credit granted to companies and households, on the basis of which the final cost of operations is determined for each participating bank.

Household demand strengthened in response to the gradual improvement in the outlook for the real estate market and the low cost of mortgages. Consumer credit also expanded. The increase in credit demand among firms was driven by manufacturing, mainly among larger companies, and services. Conversely, the decline in lending to the construction sector continued, although the contraction was less pronounced than in the recent past. In the presence of favorable credit supply conditions, business demand for financing was instead held back by the ample availability of internal resources and greater recourse to non-bank financing.

As in the previous year, the improvement in Italian banks' credit quality continued in 2017, fostered mainly by the consolidation of the economic recovery and by the significant de-risking operations carried out mainly by major domestic banks. Total impaired positions, net of writedowns, decreased from €200 billion to €140 billion, amounting to 7.8% of total lending at the end of the year, while net bad debts fell from €86 billion to €60 billion (3.5% of total lending). The overall improvement in macroeconomic conditions will enable Italian banks to continue with actions to strengthen their balance sheets and reduce impaired loans, actions requested by the European supervisory authorities, which are adopting increasingly stringent prudential measures for such exposures

(see the section “Recent initiatives by European authorities regarding impaired loans”), but at the same time are also necessary to reduce risks and consequently the funding costs of banks. These results could be facilitated by faster and more efficient recovery/deconsolidation initiatives for non-performing loans and more active management of “unlikely-to-pay” exposures, which represent half of total net impaired loans, in order to foster their return to performing status or minimize losses on those positions.

In this context, the profitability of the major Italian banks showed improved markedly compared with the previous year. The annualized return on capital and reserves (ROE) rose to 8.6% (from -10.4% in 2016); excluding extraordinary income related to the consolidation operations carried out by a number of groups in the first half of 2017, ROE came to 4.7%. The operating result of significant banking groups excluding extraordinary items grew significantly compared with the previous year (22.4%). Contributing factors in this performance were growth in gross income (+0.6%) - driven by the increase in fees and commissions (6.6%), which more than offset the decline in net interest income (-1.6%) - and a decline in operating costs (-6.6%), due in part to the absence of extraordinary contributions to the National Resolution Fund and the decline in charges related to staff termination incentives. Writedowns of loans decreased by 46.3%.

Given the recovery of the economy and the current de-risking, banks expect profitability in the coming years to be supported by a reduction in loan writedowns, an increase in fees and commissions on asset management services and a decline in operating costs.

### Recent initiatives by European authorities regarding impaired loans

On March 14, 2018 the **European Commission** presented a package of measures - to be discussed by the European Parliament and the European Council – intended to accelerate the reduction of non-performing loans in the banking sector. The proposals are consistent with the action plan of the European Council aimed at overcoming the problems connected with the substantial volume of impaired loans and with the initiatives implemented in recent years by the Member States, supervisory authorities and banks that have progressively reduced such positions in Europe. The Commission's accompanying report emphasized that, thanks to the measures implemented by national banking systems, the level of NPLs in the EU has gradually decreased in recent years, reaching 4.4% in the third quarter of 2017 (from 6.7% in 2014), although with not inconsiderable divergences among the various countries. Nevertheless, the total volume of impaired loans (€910 billion) still remains well above pre-crisis levels. In Italy, the decline was more accentuated in the last quarter of 2017, bringing the NPL ratio to 12.1%, from 16.1% in the third quarter of 2016. That level is still among the highest in Europe, after those of Greece, Cyprus and Portugal.

The measures proposed by the Commission – comprising a directive, a regulation and a technical blueprint – together provide for a series of complementary actions aimed at: (i) ensuring that banks set aside funds to cover the risks associated with loans issued after March 14, 2018 that may become non-performing; (ii) encouraging the development of secondary markets, formed of entities specialized in the management of non-performing loans, to enhance the efficiency of banks' disposals of NPLs; (iii) facilitating debt recovery; and (iv) assisting Member States to make the transfer of NPLs more efficient through the establishment, in exceptional cases, of a bad bank.

More specifically, the Commission presented a regulation amending the CRR (Regulation (EU) No. 575/2013) that provides for minimum levels of coverage for newly originated loans that become non-performing (the so-called prudential backstop), in order to address the risk of not having enough funds to cover losses on future NPLs and preventing their accumulation. Failure to meet with the applicable minimum level (100% after eight and two years, respectively, for secured and unsecured loans) will result in deductions from the bank's own funds.

In addition, the Commission has also presented a proposal for a Directive - whose measures are to be implemented by the Member States by the end of 2020 - aimed primarily at improving the efficiency of debt recovery procedures, providing for the possibility of accelerated out-of-court enforcement of loans secured by collateral. The proposal - which in principle is directed at the same objectives of the so-called Patto Marciano regulated in Italy by Article 48-bis of the Consolidated Banking Act, introduced with Decree Law 59/2016, ratified with Law 119/2016 – would allow banks and borrowers (excluding consumer credit) to agree in advance on an accelerated out-of-court mechanism to recover the value from loans secured by collateral (the accelerated extrajudicial collateral enforcement procedure). In order to further develop secondary markets for NPLs, the Directive also envisages harmonizing requirements and creating a single market for credit servicing and the transfer of bank loans to third parties across the EU, setting common standards for authorization and supervision for authorized entities so that ser-



vicers can be active throughout the EU without having to meet additional national requirements (so-called passporting).

Finally, the package of measures includes a technical blueprint containing non-binding guidelines for the establishment of bad banks (asset management companies) authorized to purchase loans, stating however that any State aid for these entities would be only be allowed under specific conditions and as “exceptional solutions”. In addition, governments could provide “market-compliant” guarantees for the securitization of NPLs.

On March 15, 2018 the **Single Supervisory Mechanism** published a measure (an “Addendum” to the “Guidance on non-performing loans” issued by the ECB last year) with which it introduced a temporal approach to the impairment of impaired loans (so-called calendar provisioning). Unlike the provisions of the Commission proposals above, the Addendum effectively introduces supervisory expectations for the coverage rates of impaired exposures starting from April 1, 2018, in accordance with a “second pillar” approach, differentiating between unsecured and secured loans, to be completely written down in two and seven years, respectively, under penalty of more restrictive capital measures.

### The mutual banks<sup>2</sup>

In the economic conditions discussed above, characterized by the slow recovery of the Italian economy, the mutual banks posted virtually no growth in loans to customers and saw an improvement in credit quality in 2017. The aggregate recorded growth in all areas of the country, especially in the South (+4.6%), with the sole exception of the Center.

More specifically, mutual banks' gross loans to customers at the end of 2017 amounted to €131.4 billion, of which €79.5 billion to businesses; their national market share was 7.2% (9.8% for lending to businesses), an increase on the end of the previous year.

The growth in loans to consumer households was confirmed (+1.6% on an annual basis), while loans to non-financial companies decreased (-3.0%), albeit by less than the market as a whole (-6.3%). Contributing to this contraction was the significant decline in loans to the “construction and real estate” segment (-8.4%), only partially offset by the increase in lending to the services (+2.8%) and agricultural (+2.5%) sectors.

As a result of these trends, the mutual banks saw an increase in their market share of lending to producer households (to 18.3% at the end of 2017, compared with 17.9% at the end of the previous year) and non-financial companies (8.8%, compared with 8.5% at the end of 2016). The mutual bank market share also increased for lending to the non-profit sector (from 13.5% to 14.1%), while that for consumer lending was unchanged (8.6%).

Total funding from banks and customers at the end of 2017 – of which 83.3% from customers and bonds and 16.7% from interbank funding - amounted to €190.1 billion, down 2.5% on an annual basis. The decline was larger than the average for the domestic banking industry as a whole (-0.4%). While demand funding continued to expand, term funding posted a pronounced contraction.

The financial position of the mutual banks did not change during the year, since the Tier 1 Ratio and the Total Capital Ratio were essentially unchanged at 16.7% and 17.1%, respectively. However, there was a general improvement in profit margins, thanks in part to the rationalization of costs, although this differed by area and individual mutual bank.

## 2. THE ICCREA GROUP'S STRATEGIC LINES OF BUSINESS

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

<sup>2</sup> The information on mutual banks is drawn from the Bank of Italy (Flusso di ritorno BASTRA B.I. and Albo sportelli) and based on analysis by the Analysis, Research and Statistics department of Federcasse on the basis of available supervisory reporting. The information on the developments for all banks is drawn from the Bank of Italy (Flusso di ritorno BASTRA B.I. and Albo sportelli).

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

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



## BUSINESS AREAS

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

### Institutional business area

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

With regard to **Iccrea Banca's** role as the mutual banking system's finance hub and in managing liquidity, in 2016 the mutual banks continued to participate in collateralized funding activities through transactions with the ECB and with market counterparties. Iccrea Banca participated in the fourth auction of the T-LTRO II program for €8.9 billion, thereby ending T-LTRO II with a total participation of €14.4 billion.

The excess liquidity deriving from the daily settlement account balances and from TLTRO II and the decline in the mutual banks' activity through the pool collateral mechanism reduced the need for funding through secured markets, which was down 42% compared with the previous year. As of December 31, 2017, collateralized funding amounted to around € 7.6 billion.

With regard to Italian government securities, Iccrea maintained quotes for 100 securities on the Hi-MTF and ETLX platforms as part of its market making activities and served as a specialist for BTP Italia traded on the MOT market operated by Borsa Italiana. Total volumes traded in this segment amounted to €1.35 billion. Volumes of Italian government securities traded on electronic markets totaled over €107 billion, in line with the previous year.

As part of its market making activities, Iccrea Banca maintained quotes for about 408 eurobonds on the Hi-Mtf, 443 eurobonds on the EuroTLX and 100 eurobonds on the Extramot and the Euromot.

Iccrea helped the mutual banks make combined use of financial products and derivative instruments in order to stabilize net interest income. The mutual banks were offered highly customized derivatives to hedge the interest rate risk associated with portfolios of fixed-rate mortgage loans.

Medium/long-term funding operations completed included:

- 6 bond issues totaling €2.0 billion, with an average maturity at issue of 4.3 years; retail customers of the mutual banks made up 41% of these placements, the mutual banks themselves 22%, and institutional investors the remaining 37%;
- time deposits with the mutual banks totaled €378 million, with an average maturity at issue of 2 years.

Total medium/long-term funding through bond issues outstanding at December 31, 2017 amounted to €5.9 billion, with an average residual life of 2.5 years.

With regard to operations performed on financial markets on behalf of the mutual banks, in 2017 Iccrea Banca confirmed its position as the leading intermediary in the mutual banking industry, ranking second in the Domestic MOT market and third in the aggregate ranking for the EuroTLX and Hi-MTF markets of Borsa Italiana. The market shares were, respectively, 15.1%, 20.5% and 10.4%.

Total volumes on the primary and secondary markets amounted to €33 billion in operations carried out for over 220 mutual banks.

Iccrea also participated in the placement of two BTP Italia issues, which saw total participation by the mutual banks amounting to €1.7 billion.

As regards direct bond issues, in 2017 the mutual banks continued to demonstrate considerable interest in the placement of Iccrea bonds targeted at the customers of the mutual banks and for their own portfolios, subscribing an amount equal to €1 billion.

In 2017, in the structured finance arena, Iccrea Banca, acting as advisor and arranger, coordinated the sale of a portfolio of loans, primarily unsecured bad loans worth a total gross amount of around €135 million, through a multi-seller operation involving 15 mutual banks, a Group company and the Deposit Guarantee Fund.

Analysis was begun on the structuring of a multi-seller securitization of bad loans for a total gross amount of approximately €1 billion, the senior notes for which are backed by a government guarantee on the securitization of bank non-performing loans (GACS); the operation will be completed in 2018. As part of the support provided to the mutual banks, Iccrea also served as arranger for the assignment without recourse of 4 portfolios of bad loans worth a gross amount of about €316 million.

As for payment systems, the market is seeing the emergence of new non-bank operators who are very aggressive in their approach to the market and free of legislative or supervisory restrictions. This environment is making it essential to develop new value-added services for customers to ensure good profitability and enhance the loyalty of mutual bank customers. Accordingly, Iccrea Banca is continuing development of payment products (like MyBank and CBill), electronic invoicing and services connected with the digitization of government. These new products join the traditional ones of bill paying services and certificates of conformity.

As part of its participation in official government and interbank initiatives, Iccrea Banca participates in the main working groups sponsored by ABI, Consorzio CBI, EBA and the Electronic Invoicing and Dematerialization Observatory. In addition, under the aegis of the European Payments Council (an associative body the European banking industry in charge of managing the SEPA payments scheme and liaising with European authorities, Iccrea Banca:

- is participating in international bodies and working groups on the evolution of SEPA mechanisms;
- has taken advantage of the option granted by the EPC to configure our banks as a group, with a consequent reduction in the fees for participation in SEPA.

Iccrea Banca continued its efforts in the payment systems segment: the ever increasing availability of SEPA instruments and the arrival of new competitive services (such as legally compliant digital conservation) generated commissions and fees that offset the decline under way for some years now in income from traditional products owing to changes in customer habits (especially in the falling use of checks). In this segment, one synthetic indicator of value created by the mutual banks involves assigning a €0.50 value (cost of transaction) to Trade Collections and Credit Transfers products (200 million transactions for year carried out), so as to calculate the fees and commissions generated by the mutual banks (€100 million in total). The average cost estimated by the Bank of Italy at the banking system level in 2013 for a credit transfer drawn on the same bank was around €0.75.

Furthermore in 2017, again in the payment systems segment, Iccrea Banca mainly engaged in:

- setting up a new interbank procedure (Check Image Truncation) for handling the transmission of digital images of checks between banks (to be gradually rolled out in the first half of 2018) and the declaration in lieu of protest for the Bank of Italy and notaries;
- further developing the Satsipay service, enabling Satsipay SpA to deliver its service autonomously (following its receipt of FCA authorization to operate as an electronic money institution (ELMI)) and extend its use beyond domestic transactions.

As part of the “Institutional Services” segment, Iccrea Banca acts as a partner capable of delivering the entire value chain of securities administrative and settlement services. In addition, it provides a high degree of flexibility in service delivery using non-standard approaches, customizing products and services based on customer needs. In this segment, the most important projects begun in 2017 concerned areas covered by the European Market Infrastructure Regulation (EMIR) governing derivatives, US qualified intermediary (QI) rules, and the Markets in Financial Instruments Directive II (MiFID II). More specifically, the mutual banks have access, through a special portal, to all the services offered by Iccrea Banca to assist them in complying with EMIR in connection with derivative-related activity, including a service for reporting transactions to the trade repositories and assessing capital absorption. Iccrea Banca, as the QI for the mutual banks, acts as withholding agent with respect to the US Internal Revenue Service, undertaking all the document preparation and organizational, implementation and operational tasks connected with the new legislation, including developing training programs for the mutual banks’ employees.

As of December 2017, securities held in custody by Iccrea Banca on behalf of the mutual banks and their customers were worth a total of about €78 billion. During the year, Iccrea handled around 26,000 transactions relating to its custody services.

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

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues; the database includes about 80,000 instruments;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at giving them the same liquidity conditions provided for under Consob regulations, with 61 mutual banks recorded and a total of 1,069 issues listed as of December 2017;
- the management of activities connected with the distribution of the investment funds of BCC Risparmio & Previdenza;
- the services concerning compliance with transparency rules and the monitoring of possible market abuse for which, in 2017, 124 mutual banks had subscribed to the Transaction Reporting service and 119 mutual banks to the MAD service.

With regard to the **IT systems of Iccrea Banca and BCC Sistemi Informatici**, in 2017 significant work was done on data protection and optimization of the business continuity and disaster recovery process on behalf of the Iccrea Group and the mutual banks. The PCI DSS and ISO27001 certifications were also renewed to ensure compliance with those international standards that are most important for the Group.

During the year, BCC Sistemi Informatici provided support to 115 banks through numerous projects, the most important of which were check dematerialization, financial consulting (completing the financial suite available to the mutual banks), electronically-captured signatures, which envisages the gradual extension of the current solution to all contracts, and the digitization of customer copies so that they can be issued electronically. In addition, significant work was carried out to comply with legislative changes relating to IFRS 9, PSD 2, MiFID II and SIOPE+; with regard to SIOPE+, a system was developed to connect general government and bank treasuries through the complete digitization of communication and the mandatory use of electronic orders for all general government bodies.

As part of the institutional services, in 2017 BCC Gestione Crediti – with the exception of IBI, which manages bad loans using its own proprietary software – completed the transition to use of IFAMS software for all managed portfolios and consequently began operation according to the envisaged development model. As of December 31, 2017, there were active relationships, including institutions such as the Deposit Guarantee Fund and the Temporary Fund, with 33 counterparties for gross book value equal to around €3.9 billion and reaching the commercial development plan targets.

With regard to project development, various new solutions for managing NPLs, beyond the full outsourcing contemplated in the original business plan, were examined. In addition, as part of the IFRS 9 project to provide support to the participating mutual banks, the Iccrea Banking Group – through the involvement of BCC Gestione Crediti – performed a targeted analysis of the portfolios of non-performing loans (NPL) held by the mutual banks.

Regarding support for Group companies and facility management activities, in 2017 **BCC Solutions**, in addition to conducting its ordinary activities, was heavily engaged in completing the expansion and renovation of the Lucrezia Romana headquarters. The expansion, which involved all 3 of the campus buildings, added around 4,400 m<sup>2</sup> of office space, making it possible to add 279 work stations (+17.4%). Moreover, a new underground garage was built, with space set aside for equipment rooms, and the complete restyling of the external walls was completed, considerably improving the environmental impact owing to climate control systems in the rooms and the installation of a photovoltaic system.

Considering as well that the area adjacent to the Lucrezia Romana headquarters is deemed of special archaeological and social interest, the entire site underwent recovery and redevelopment for historical preservation and urban planning purposes culminating in the construction of an archaeological park with a connected playground area. An in-house daycare facility was opened as a further employee benefit measure.

## Corporate business area

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

With regard to **Iccrea Bancalmpresa**, new credit volumes were slightly lower than in 2016 (-2.3%) in part owing to the lesser contribution of some mutual banks that historically have been more proactive in the sector and to the generalize need of individual banks to reach the lending growth targets required to be eligible for the benefits envisaged in the T-LTRO.

There was intensive work carried out to arrange and complete a significant number of pool loans for mutual bank customers. These loans served to reinforce the mutual banks' role of supporting their customers' plans for development, demonstrating the ability to satisfy even the most complex and substantial financing needs and thereby contributing to the achievement of the Group's T-LTRO target.

It also provided a significant amount of financial consulting services through numerous contracts to assist SMEs in issuing minibonds and its first-time handling of an IPO on Borsa Italia's market for listing SMEs (AIM) in the role of co-advisor. Iccrea Bancalmpresa also continued to serve the M&A segment and help firms participate in public infrastructure tenders.

As for Products and Complementary Services, in 2017 "service" activities associated with giving the mutual banks access to the guarantee fund for SMEs increased by 8% compared with 2016, enabling the mutual banks to make over €1.8 billion worth of loans to more than 12,200 SMEs, with 80% of the risk hedged and zero-weighted.

During the year 1,965 applications under the Sabatini Act mechanism were successfully processed for a total volume of financing/leasing of around €477 million. In addition, around €40 million in plant grants were allocated for these firms, drawn from funding provided by the Ministry for Economic Development.

In 2017 in the area of international lending, Iccrea Bancalmpresa concluded transactions amounting to around €163 million in new lending broken down into €128 million in outright loans and €35 million in guarantees, in addition to international guarantees on the mutual bank system totaling €140 million and consulting services that enabled around 50 companies to obtain subsidized loans from Simest.

Recovery and restructuring of non-performing credit assets continued in line with the strategy and operating plan. In this area, IBI completed two transfers to the Real Estate Fund and an assignment of a stock of credit assets to an external investor for around €58 million.

Other important activity that IBI undertook included:

- the new version of the rating system, which is able to capture counterparty riskiness over time, with changes to practically all of the model's components;
- new loss given default (LGD) estimates for various credit products;
- further development of existing credit classification and valuation software;
- comprehensive reshaping of the monitoring and early warning system (watch list);
- revamping of the entire framework for managing contract covenants;
- drafting of new policies and procedural rules for the identification, management and monitoring of experts and the revaluation of real estate used as collateral.

For **BCC Factoring** 2017 was a year marked by growth in volumes traded and a corporate reorganization, which made it possible to strengthen its position within the range of Group products, providing specialized services to business customers, in support of all the mutual banks that are members of the Cooperative Banking Group. In all, gross lending amounted to €543 million at December 31, 2017, with total invoices outstanding of €599 million.

The rise in volumes, especially in terms of turnover, made it possible to limit in part the negative effects of the contraction in economic conditions, owing to growing competitive pressure and the impact of the ECB's expan-

sionary monetary policies, particularly T-LTRO, on interest rates. Turnover exceeded the planned targets, reaching more than €1.7 billion (+13.7% compared with 2016), including the good contribution of operations with the mutual banking system, which represented over 61% of new contracts and 47% of the total portfolio.

For **BCC Lease**, the year 2017 was one of consolidation and active development, which enabled it to continue to expand its area of operation to integrate and complement that of its direct parent, Iccrea Bancalmpresa.

In particular, the company worked to consolidate the information system and scoring system, implemented in 2016, and brought into full operation the COSME guarantee facility, through which more than 2,500 contracts with customer SMEs were stipulated for an amount of about €45 billion.

At the same, preparations were made to enable BCC Lease to expand the scope of its business from light vehicle leasing to include heavy vehicles so as to cover almost the entire vehicle leasing market.

On the commercial level, the company was once again in 2017 deemed a point of reference in the small-ticket leasing segment for the mutual banks and in the Italian market, and was one of the major domestic players in the operating and small-scale capital equipment finance leasing, segments in which it has long adopted a “vendor” approach.

Against this favorable backdrop, in 2017 the company concluded around 19 thousand contracts worth €206.1 million, compared with about 15,500 for €185.3 million in 2016, an increase of 22% in the number of contracts and 11% in the contracted amount. At the end of 2017, total gross lending to customers amounted to €387.3 million, compared with €343.1 million in 2016, for an increase of 12.9%.

### Retail business area

This business area groups those companies that offer products and services to the retail customers of the mutual banks. Its wide range of products and services includes asset management, personal loans, payment cards and insurance products. In addition to Iccrea Banca, the Group companies in this business area are BCC Risparmio & Previdenza, BCC Retail, BCC Credito Consumo, Ventis and Banca Sviluppo.

In the **electronic money** sector, in 2017 **Iccrea Banca** continued to register growth in the card segment (issuing), with 3.7 million operational cards and about €19.2 billion in transaction volume and in the POS and ATM segment (acquiring), with more than 190,000 POSs and 3,800 ATMs active and about €22.6 billion in transaction volume. Specifically, in the issuing segment, all three components (debit, prepaid and credit) posted gains, an increase of 6.2% for debit cards, 5.3% for credit cards, and 3.3% for prepaid cards. The acquiring segment also posted an increase in volumes: the total transaction volume was €22.6 billion (of which €16.6 billion through the PagoBAN-COMAT/BANCOMAT circuits and €6 billion through international circuits), compared with €19.5 billion in 2016.

The year also saw the completion of a range of projects to support the mutual banks in placing the Acquiring product through a dedicated network of agents and new cards (credit/prepaid) managed entirely in-house, with the goal of strengthening ties with Ventis.it, the relational hub of the mutual bank movement. In addition, there was further development of the Ventis.it marketplace, dedicated to supporting the digitization of SMEs and the launch of Apple Pay, another move towards innovation and digitization taken by the Group to stimulate customer loyalty; these customers are now offered a new payment instrument on top of all the rewards and benefits already provided by CartaBCC.

**BCC Risparmio&Previdenza** continued to pursue product development, commercial animation and communication activities linked to the promotion of the full range of asset management products, building on initiatives undertaken in previous years. More specifically, two individual retirement plans (PIRs) were established, namely Investiper Italia PIR25 (starting April 2017) and Investiper Italia PIR50 (from October 2017), which had funding of respectively €189 million with 153 active mutual banks and €26 million with 113 active mutual banks. With regard to supplementary pension funds, in order to encourage the spread of a pension investment culture, in the last quarter of the year a project targeted at minors was conceived and launched.

In 2017, the company and the Parent company undertook a joint project to identify the potential primary effects of MiFID II and MiFIR on the service models of BCC Risparmio&Previdenza and of the mutual banks participating in the Group.

The activities carried out with the mutual banks and the sharing of the products and services provided enabled BCC Risparmio&Previdenza to pass through around €100 million in fees and commissions to the mutual banks, an increase of more than 32% on the previous year.

Total assets under management/placement by BCC Risparmio&Previdenza at the end of 2017 amounted to €15.3 billion, a sizable increase of €2.6 billion on 2016. Total net funding was positive at €2.4 billion.

In the first half of 2017, a part of a more general reorganization, **BCC CreditoConsumo** was involved in the migration from the IT system previously used by the company and in the partial insourcing of operations (Matrix project).

The optimization of the Internet channel led to a considerable improvement in both the quality and the quantity of new loans, reaching volumes of around €10.5 million per year with over 4,150 new customers. In terms of penetration, during the year the Internet channel rose from 1.5% to 5.4% of total lending.

For the first time, in October 2017, the Crediper brand was disseminated and promoted on television, targeted at current and potential mutual bank customers.

The company also launched a project to bolster the segment of loans repaid by automatic deductions from wages (*cessione del quinto di stipendio e pensione*) by signing agreements with two specialized firms to distribute the product throughout the country. As of December 31, 2017, more than 105 mutual banks had begun to take part in this new operation.

New lending generated during the year amounted to €392 million, down 7.5% compared with 2016 owing to the migration to the new IT platform, which slowed down operations, largely in the summer months. As of December 31, 2017, total lending amounted to €932.4 million and consisted almost entirely of consumer credit (€923.4 million) with the remainder comprised of loans to banks and other types of credit.

The year 2017 was also a particularly important one for **Banca Sviluppò**, enabling it to completely fulfill its mission to support the mutual bank system by acquiring business units/mutual banks in distress and thereby preserving the movement's market shares; all this with the goal, in keeping with the strategic guidelines laid down by the Parent Company, to restore the branches and make them again profitable in order to return them to the internal market of mutual banks, thus ensuring protection of deposits and the preservation of the relationship between the mutual banking system and its customers. During the year, non-binding offers were received for a part of Banca Sviluppò's network and sales were completed with 3 mutual banks, for a total of 14 branches. Additional actions initiated with regard to this process should be implemented in 2018.

In 2017 **Ventis** also saw its activity grow at a significant pace, establishing itself as a digital company focusing on e-commerce: partner companies can turn to and promote their products to open-market customers and a select target of premium customers thanks to Ventis's ties with the mutual banking system. It is because of the partner companies that Ventis achieved one its biggest accomplishments, i.e. improving the quality and number of brands on its portal, currently 974, arriving at 1,393 online "shop windows" in 2017.

In 2017 **BCC Retail** initiated the process of "sharing and planning" between the mutual banks and the "factories" (asset management and other companies), with the involvement of over 25 employees who make up part of the Commercial Entertainment unit, 14 employees of the product companies, and 105 representatives of the mutual banks (heads of the Finance, Insurance, Retail and Commercial units). This process resulted in the signing of 167 agreements committing the "Commercial Entertainment" unit to organize training sessions, which totaled more than 2,400 hours and involved over 5,500 employees of the mutual banks; furthermore, 220 informational meetings were organized throughout the country, attended by more than 6,000 customers and 5,000 employees of the mutual banks.



### 3. CREATING VALUE FOR THE MUTUAL BANKS AND OVERVIEW OF OPERATIONS

The Iccrea Banking Group - both directly through the operations of the Parent Company, Iccrea Banca, and through the subsidiaries - supports the banking operations of the mutual banks in a partnership relationship, providing products, services and consulting to maximize their performance in the market. The main areas of operations are described below.

At December 31, 2017, the total amount of fees and commissions passed through to the mutual banks amounted to about €384 million. As shown in the following table, the growth in electronic money and asset management activities accounted for the most significant portion, the latter of which has been expanding steadily in recent years.

€/millions	2013	2014	2015	2016	2017
Asset management	29.1	40.6	61.0	74.5	95.8
Insurance investment products	13.5	16.6	28.8	26.3	25.6
Corporate loans	7.4	7.0	5.8	5.5	5.7
Electronic money	209	226.5	239.8	220.6	236.7
Consumer loans	18.8	18.6	20.2	22	19.8
<b>Total fees and commissions passed through</b>	<b>277.7</b>	<b>309.3</b>	<b>355.6</b>	<b>348.9</b>	<b>383.6</b>
System contributions	4.6	5.0	5.0	4.1	3.6
Dividends of the Parent Company (*)	10.4	-	13.9	14.2	11.2
<b>Total</b>	<b>291.9</b>	<b>314.3</b>	<b>374.5</b>	<b>367.2</b>	<b>398.5</b>

(\*) Dividends by year of disbursement.

In addition, in 2017 financial intervention with the Deposit Guarantee Fund and the Institutional Mutual Bank Guarantee Fund amounted to €3.6 million.

All the Group companies are constantly focused on nurturing and expanding their relationship with the mutual banks, reinforcing the strategy of establishing partnerships and close ties. The various institutional relationship activities and engagement with the mutual banks help create opportunities at the international level and develop instruments to dialogue and address key business issues. Alongside its domestic activities, the Group has increasingly focused on the international market within the context of relationships developed with domestic, foreign and supranational institutions and/or entities, in order to expand the international activities of the Group and the mutual bank system (for example, in the area of funding), as well as supporting SME customers in the process of international expansion.

#### Support for system liquidity and profitability

As part of its institutional functions, the Iccrea Group also provided support to the mutual banks through:

- €16.5 billion in collateralized loans;
- €220 million in bonds underwritten (average annual exposure);
- €8.6 billion average balance in active management of liquidity using short-term treasury instruments;
- €8.9 billion in financing through participation in the fourth auction of the T-LTRO II program;
- €6.24 billion in initial value of securitizations, with a residual principal of €2 billion.

In addition support for the operations of the mutual banks also included:

- €10 billion in lending to the corporate and retail customers of the mutual banks;
- €15 billion in assets managed/placements with mutual bank customers;
- €29 billion in order collection;
- 288 million transactions intermediated in the collections and payment segment;
- €19 billion in volumes handled in the issuing segment;
- €22.5 billion in volumes handled in the acquiring segment.

## 4. DEVELOPMENTS IN GROUP OPERATIONS

### The balance sheet

To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in Circular no. 262/05 of the Bank of Italy.

### Consolidated assets

€/thousands	31/12/2017	31/12/2016	Change
Cash and cash equivalents	110,641	113,310	(2,670)
Due from banks	17,875,759	21,152,194	(3,276,435)
Loans to customers	14,856,879	13,674,256	1,182,624
Financial assets:			-
- held for trading	297,143	391,281	(94,138)
- at fair value	15,630	14,559	1,072
- available for sale	3,118,484	5,247,279	(2,128,795)
- held to maturity	-	4,738,609	(4,738,609)
- hedging derivatives	6,716	17,773	(11,057)
- value adj. of hedged assets	5	(348)	353
Equity investments	111,676	102,285	9,392
Property and equipment	734,014	701,380	32,634
Intangible assets	49,409	38,870	10,539
Tax assets	318,284	343,170	(24,886)
Other assets	412,560	320,181	92,380
Non-current assets and disposal groups held for sale	220,286	-	220,286
<b>Total assets</b>	<b>38,127,486</b>	<b>46,854,799</b>	<b>(8,727,313)</b>

Consolidated assets at December 31, 2017 totaled €38.1 billion, a substantial decrease (€8.7 billion, or -18.6%) from December 31, 2016. The change with respect to the previous year is mainly attributable to:

- the disposal of the entire portfolio of HTM financial assets (-€4.7 billion), represented entirely by government securities;
- a reduction in the portfolio of AFS financial assets (-€2.1 billion, or -40%), due mainly to the disposal of government securities, in line with the strategy of reducing exposure to sovereign risk;
- a reduction in amounts due from banks (-€3.3 billion, of -15%) as a result of a decline in collateralized lending to the mutual banks in respect of pool collateral transactions, partly offset by an increase in the reserve requirement held with the central bank;
- an increase in loans to customers (€1.2 billion, or +8.6%), mainly reflecting an increase in the exposure to the Clearing and Guarantee Fund, partly offset by the disposal of branches and the reclassification to assets held for sale of part of the loans of Banca Sviluppo.

A substantial portion of amounts due from banks is represented by financing granted to the mutual banks under the pool collateral mechanism, equal to €15.4 billion (of which €9 billion in respect of financing provided through TLTRO-II) in exchange for collateral securities with a total fair value, net of the haircut, of €18.1 billion.

At the end of December 2017, net impaired loans to customers amounted to €1.35 billion (€1.42 billion at December 31, 2016), equal to 9% of total lending (10.4% at the end of December 2016). The ratio of net bad debts to loans was 3.9% (3.7% at December 31, 2016), while the ratio of net positions unlikely to be repaid to loans was 4.8% (6.2% at December 31, 2016). Gross impaired assets amounted to €2.54 billion, virtually

unchanged on the previous year (€2.57 billion). The ratio of gross impaired assets to loans was 15.5% (17.2% at December 31, 2016). The calculation of these ratios included the loans of Banca Sviluppo, which is classified as held for sale. The decline in the risk indicators is attributable to the increase in loans to customers as a result of a rise in collateralized lending with the Clearing and Guarantee Fund.

The coverage ratio for impaired assets was 47%, an improvement on December 2016 (44.7%). More specifically the coverage ratio was 58.3% for bad debts – a decline of 1.6 percentage points on the end of the previous year (59.9%) – and 34.3% for unlikely-to-pay positions, an increase on the previous year (31.5%). The reduction in the coverage ratio for bad debts is attributable to the acquisition, through the Lucrezia vehicle, of bad debts that were recognized in the consolidated accounts at their transaction value rather than their nominal value, in accordance with the applicable accounting standards. Excluding that transaction, in which Iccrea Banca has undertaken to subscribe all of the notes issued by the vehicle, the Group's coverage ratio for bad debts at December 31, 2017 was 62%, an increase of about 2 points on the previous year.

Following the disposal of government securities noted earlier, the portfolio of financial assets available for sale (AFS) is mainly composed of non-controlling equity investments.

The portfolio of financial assets held for trading mainly includes derivatives hedging interest rate risk and indexes with a positive fair value, entered into for trading purposes.

Equity investments not classified as AFS comprise interests in associated companies and amounted to €111.7 million (€102.3 million at December 31, 2016), with the increase mainly reflecting the pro-rata share of the net income of associated companies and the inclusion of the associate Satsipay in the scope of consolidation.

Property and equipment primarily includes properties owned used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securifondo and the Securis Real Estate real estate funds). The increase compared with 2016 (€32.6 million) reflects both the transfers of properties to the real estate funds during the year and expansion work on the management offices in Via Lucrezia Romana in Rome.

Intangible assets include €21.7 million in goodwill paid for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici), a decrease of €0.9 million on December 31, 2016 attributable to the partial writedown of the goodwill in respect of Banca Sviluppo. Other intangible assets amounted to €27 million and mainly regard software, which increased compared with 2016 for a number of reasons, including the costs incurred in connection with the formation of the Mutual Banking Group.

Tax assets include current and deferred tax assets and amounted to €318.3 million (of which €172 million in deferred tax assets under Law 214/2011), a decrease of €25 million on December 31, 2016, the net effect of the estimated tax liability for the period, deferred tax assets and deferred tax liabilities.

Other assets amounted to €412.5 million, an increase of €92 million on December 31, 2016 (€320 million), mainly reflecting a number of temporary items settled in the first few days of the month following the close of the year.

Non-current assets held for sale amounted to €220.3 million (none at December 31, 2016) and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

## Consolidated liabilities

€/thousands	31/12/2017	31/12/2016	Change
Due to banks	19,235,105	12,722,738	6,512,367
Due to customers	10,068,860	26,829,330	(16,760,470)
Financial liabilities:			
- securities issued	5,688,867	4,466,854	1,222,013
- held for trading	356,450	409,617	(53,167)
- measured at fair value	492	21,389	(20,897)
- hedging derivatives	56,416	63,318	(6,902)
Tax liabilities	5,331	3,946	1,385
Liabilities associated with assets held for sale	282,047		282,047
Provisions for risks and termination benefits	89,344	106,288	(16,943)
Other liabilities	668,291	575,550	92,741
Shareholders' equity	1,676,281	1,655,769	20,512
<b>Total liabilities and equity</b>	<b>38,127,486</b>	<b>46,854,799</b>	<b>(8,727,313)</b>

Amounts due to banks (excluding bonds) amounted to €19.2 billion, up 51% on December 31, 2016 (€12.7 billion), mainly reflecting the increase in funding with the ECB under the T-LTRO II program.

Amounts due to customers amounted to €10.1 billion, down 62% on the previous year, the effect of the reduction in repurchase transactions with the Clearing and Guarantee Fund.

Securities issued amounted to €5.7 billion, up €1.2 billion on December 31, 2016 (€4.5 billion) due to new issues in the period.

Financial liabilities measured at fair value through profit or loss (fair value option), represented by structured bonds issued by Iccrea Banca, decreased as a result of redemptions during the year.

Liabilities associated with assets held for sale totaled €282 million (none at December 31, 2016) and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

## Consolidated shareholders' equity

The composition of consolidated shareholders' equity is as follows.

€/thousands	31/12/2017	31/12/2016	Change
Share capital	1,151,045	1,151,045	-
Share premium reserve	4,747	4,747	-
Valuation reserves	73,569	73,848	(279)
Reserves	352,141	389,976	(37,835)
Profit (loss) for the period (+/-)	29,357	(24,067)	53,424
<b>Total shareholders' equity</b>	<b>1,676,282</b>	<b>1,655,769</b>	<b>20,513</b>
Equity pertaining to shareholders of the Parent Company	1,610,859	1,595,549	15,310
Equity pertaining to non-controlling interests (+/-)	65,423	60,220	5,203

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.7 billion, essentially unchanged on December 31, 2016. The increase of €20 million mainly reflected the combined effect of:

- the distribution of dividends in 2017;
- net profit for the year.

## The income statement

To enable a more immediate understanding of the Group's performance, the following tables contain a more condensed income statement compared with the schedule provided for in Circular no. 262/05 of the Bank of Italy.

€/thousands	31/12/2017	31/12/2016	Change
Net interest income	319,824	344,639	(24,815)
Net fees and commissions	217,735	192,802	24,933
Net gain (loss) on trading activities	15,093	10,930	4,163
Net gain (loss) on disposals	104,353	71,742	32,611
Result of FVO, dividends and hedging	2,032	5,060	(3,028)
<b>Gross income</b>	<b>659,037</b>	<b>625,174</b>	<b>33,864</b>
Net impairment adjustments	(177,660)	(158,972)	(18,688)
<b>Net income (loss) from financial operations</b>	<b>481,376</b>	<b>466,201</b>	<b>15,175</b>
- personnel expenses	(189,310)	(215,845)	26,535
- other administrative expenses	(298,747)	(319,852)	21,105
Depreciation, amortization and provisions	(27,263)	(37,204)	9,941
Other expenses/income	94,405	95,711	(1,306)
<b>Operating expenses</b>	<b>(420,917)</b>	<b>(477,190)</b>	<b>56,273</b>
<b>Operating result</b>	<b>60,460</b>	<b>(10,989)</b>	<b>71,449</b>
Fair value measurement of property and equipment	(22,171)	(34,784)	12,613
Writedowns of goodwill	(907)	-	(907)
Profit (loss) from equity investments	4,252	4,445	(193)
Profit (loss) from disposal of investments	4,995	(19)	5,014
<b>Profit (loss) before tax on continuing operations</b>	<b>46,629</b>	<b>(41,347)</b>	<b>87,976</b>
Income taxes	(11,125)	19,654	(30,779)
Net profit pertaining to non-controlling interests	(6,147)	(2,374)	(3,773)
<b>Net profit pertaining to the Iccrea Group</b>	<b>29,357</b>	<b>(24,067)</b>	<b>53,424</b>

The Group closed the year with a net profit of €29.4 million despite incurrent significant charges for non-recurring events that had an adverse impact on performance.

More specifically, **gross income** reflected the following developments:

- net interest income amounted to €319.8 million, down €24.8 million (-7.2%) on the previous year (€344.6 million), mainly reflecting the smaller contribution of government securities following the disposal of those holdings and the overall developments in interest rates, partly offset by interest income on T-LTRO II operations of about €19 million;
- net fee and commission income amounted to €217.7 million, up €24.9 million (+12.9%) on the previous year (€192.8 million) thanks to increased income from Iccrea Banca's e-money operations (+€7 million) and an increase in commissions realized by BCC Risparmio & Previdenza on asset management operations (+16 million on an annual basis);
- the net gain on trading activities amounted to €15.1 million, an increase compared with the previous year (€10.9 million), which reflected charges to hedge Brexit risk;
- gains from disposals amounted to €104.4 million, a substantial increase on 2016 (€71.7 million), reflecting:
  - gains on the disposal of HTM financial assets of €73.5 million, compared with none in 2016;
  - gains on the disposal of AFS securities of €31.6 million (€83.4 million in 2016, mainly attributable to the VISA disposal);
  - losses on the repurchase of previously issued securities of €0.9 million (€3.7 million in 2016);
- the result of exercising the fair value option (FVO), a positive €1.3 million, mainly reflects the accounting effect on the structured liabilities of Iccrea Banca of developments in credit spreads and was essentially unchanged on 2016.

As regards **operating expenses**, the following developments occurred in the year:

- personnel expenses amounted to €189 million, a decrease of about €26.8 million compared with the previous year, mainly reflecting the absence of costs for termination incentives, which were provisioned in 2016;
- other administrative expenses amounted to €298.7 million, down 21.1 million compared with the previous year. The decline mainly reflected the reduction of about €23 million in Resolution Fund contributions in 2017 (€69.4 million in 2016, including an extraordinary contribution of about €46 million connected with the resolution of four Italian banks), offset by charges incurred to adjust processes and procedures to a number of major regulatory changes (in particular, IFRS 9 and Mifid2) and project costs for the formation of the Mutual Banking Group totaling €20 million.

**Net impairment adjustments** (€177.7 million, up 11.8% on 2016) included €146.3 million in loan writedowns. **Impairment of collective investment undertakings**, which came to €22.2 million (€34.8 million in 2016) reflected the writedown of fund assets. Also impacting the aggregate was the impairment loss on Fondo Atlante of €22.1 million. Overall, between 2016 and 2017, the investment in the Fondo Atlante has incurred writedowns of €31.8 million, attributable to the Fund's writedown of its interests in Popolare di Vicenza and Veneto Banca.

Between contributions to the Resolution Fund and writedowns of Fondo Atlante, the Iccrea Group has recognized total charges of about €192 million in the last three years.

## Consolidated own funds and capital ratios at December 31, 2017

The following table offers a breakdown of **own funds** at December 31, 2017, which amounted to €1.7 billion.

Capital and capital ratios - €/thousands	31/12/2017	31/12/2016	Change
- Share capital	1,151,045	1,151,045	-
- Share premium reserve	4,747	4,747	-
- Treasury shares	(30,847)	(30,590)	(257)
- Earnings reserves	380,380	393,601	(13,221)
- Net profit for the period	-	(12,786)	12,786
- Other comprehensive income	73,745	74,027	(282)
- Transitional provisions	(86)	4,106	(4,192)
- Goodwill	(16,415)	(17,346)	931
- Deductions – deferred tax assets	(19,368)	(33,229)	13,861
- Intangible assets	(12,594)	(7,107)	(5,487)
- Prudential filters	(2,475)	(3,058)	583
- Non-controlling interests	26,930	31,928	(4,998)
<b>Common Equity Tier 1 (CET1 ratio)</b>	<b>1,555,062</b>	<b>1,555,338</b>	<b>(276)</b>
Additional Tier 1 (AT1)	5,661	5,837	(176)
<b>Tier 1 (T1)</b>	<b>1,560,723</b>	<b>1,561,175</b>	<b>(452)</b>
- Eligible subordinated loans and eligible AFS reserves	137,610	141,599	(3,989)
<b>Tier 2 (T2)</b>	<b>137,610</b>	<b>141,599</b>	<b>(3,989)</b>
<b>Total own funds (TC)</b>	<b>1,698,333</b>	<b>1,702,774</b>	<b>(4,441)</b>

More specifically, **Common Equity Tier 1** (“CET1”) at December 31, 2017 amounted to €1,555 million, in line with December 2016. A reduction of €13.8 million in deductions for deferred tax assets (on tax losses) due to the transformation carried out during the year was essentially offset by: (i) an increase in deductions from the recognition of new intangible assets in the amount of €5.5 million; (ii) a reduction in positive filters provided for under the transitional provisions on the computation of valuation reserves on AFS assets and deferred tax assets for tax losses of €4 million; (iii) a reduction in eligible non-controlling interests of about €5 million (mainly regarding Banca Sviluppo), reflecting use at the consolidated level.

**Tier 1** capital (T1) at December 31, 2017 includes part of the share capital of Banca Sviluppo subscribed by the mutual banks (minority interests) under the regulatory requirements referred to in Article 86 of the CRR. Total **own funds** (TC) amounted to €1,698 million (€1,702 million at December 31, 2016), a decrease of just €4 million attributable to the reduction in CET 1 mentioned above and the amortization of a T2 instrument issued by the subsidiary Iccrea Bancalmpresa, which matured in the first quarter of 2017.

**Risk-weighted assets** (RWA) at December 31, 2017, which break down as shown in the following table, amounted to €12.8 billion, down €88 million on December 31, 2016, reflecting reduction in the exposure to credit risk, securitizations and the CVA, partly offset by the increase in the exposure to operational risk.

(RWA) - €/thousands	31/12/2017	31/12/2016	Change
Credit risk, securitizations and CVA	11,433,811	11,537,095	(103,284)
Market risk	243,391	254,550	(11,159)
Operational risk	1,157,212	1,131,550	25,662
<b>Total RWA</b>	<b>12,834,414</b>	<b>12,923,195</b>	<b>(88,781)</b>

At December 31, 2017, the **Common Equity Tier 1 Ratio** (“CET 1”) amounted to 12.12% (12.04% at December 31, 2016), greater than the 9.50% required under the SREP for 2017. The **Total Capital Ratio** (TCR) was 13.23% (13.18% at December 31, 2016), greater than the 10.75% - including the capital conservation buffer (CCB) applicable at the consolidated level as from January 1, 2017 – required under the SREP for the current year.

Capital ratios	31/12/2017	31/12/2016	Change
CET 1 ratio	12.12%	12.04%	0.08%
Total Capital ratio	13.23%	13.18%	0.05%

For the purpose of calculating own funds, in the absence of authorization from the ECB pursuant to Decision (EU) 656/2015, profit for the year net of the foreseeable dividend has not been considered: including that component, amounting to an estimated €19.4 million, would give a CET1 ratio of 12.25% and a TCR of 13.37%.



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

### The balance sheet

To enable a more immediate understanding of the financial position, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in Circular no. 262/05 of the Bank of Italy.

At December 31, 2017 total assets and liabilities amounted to €36 billion, compared with €44.4 billion at the end of 2016. The main changes are attributable to:

- a reduction in amounts due from banks of €6.4 billion, due in particular to a decline of €1.8 billion in repurchase transactions, a decline of €5.1 billion in collateralized lending to the mutual banks and a decrease of €0.3 billion in subscriptions of debt securities issued by banks. Only the reserve requirement held with the central bank increased, by about €0.8 billion;
- the disposal of the entire portfolio of HTM financial assets (a total of €1.6 billion) and the sale of €2.2 billion of AFS financial assets, notably government securities;
- an increase in loans to customers, due mainly to the increase in repurchase transactions of €2.2 billion.

### Assets

Balance sheet data (€/millions)	31/12/2017	31/12/2016	Change
Due from banks	24,561	30,999	(6,439)
Loans to customers	5,985	4,182	1,803
Financial assets held for trading	317	420	(103)
Financial assets measured fair value	16	15	1
Financial assets available for sale	3,499	5,651	(2,152)
Financial assets held to maturity	-	1,600	(1,600)
Other assets	250	187	63
<b>Total interest-bearing assets</b>	<b>34,627</b>	<b>43,054</b>	<b>(8,427)</b>
Other non-interest-bearing assets	1,391	1,342	50
<b>Total assets</b>	<b>36,018</b>	<b>44,396</b>	<b>(8,377)</b>

Mutual bank operations with Iccrea Banca are mainly in the form of financing backed by refinanceable securities (pool collateral). At December 31, 2017 loans to the mutual banks connected with pool collateral operations, including advances from the ECB secured with refinanceable securities, amounted to €16.6 billion (of which €10.1 billion in respect of funds obtained through T-LTRO II) secured by securities with a total fair value, net of the haircut, of €18.2 billion.

Due from banks (thousands)	31/12/2017	31/12/2016	Change
Mutual banks	16,069,582	20,109,664	(4,040,082)
Other credit institutions	8,491,175	10,889,777	(2,398,602)
<b>Total</b>	<b>24,560,757</b>	<b>30,999,441</b>	<b>(6,438,684)</b>

Amounts due from mutual banks decreased by about €4 billion, while amounts due from other credit institutions declined by €2.4 billion to €8.5 billion (of which €6.8 billion in amounts due from Group banks).

Loans to customers (thousands)	31/12/2017	31/12/2016	Change
Current accounts	121,404	184,754	(63,350)
Medium/long-term loans	95,887	109,948	(14,061)
Repurchase agreements	3,116,755	921,560	2,195,195
Other transactions	2,624,063	2,939,139	(315,076)
Debt securities	8,966	6,492	2,474
Impaired assets	18,163	19,955	(1,792)
<b>Total</b>	<b>5,985,238</b>	<b>4,181,848</b>	<b>1,803,390</b>

Loans to customers increased by €1.8 billion, from €4.1 billion to €6.0 billion. The items includes amounts due from the Clearing and Guarantee Fund totaling €4.0 billion – in respect of repurchase transactions and deposits securing transactions on financial markets – and loans to subsidiaries in the amount of €1.6 billion.

Financial assets (thousands)	31/12/2017	31/12/2016	Change
HFT	316,785	420,178	(103,393)
AFS	3,498,965	5,650,669	(2,151,704)
HTM	-	1,600,390	(1,600,390)

Financial assets held to maturity (**HTM**) were equal to zero following the disposal of the entire portfolio of securities classified in that category (-€1.6 billion). Financial assets available for sale (**AFS**), which is mainly composed of debt securities, also contracted substantially (-€2.2 billion), mainly following the sale of government securities, to stand at €3.5 billion at the end of December 2017.

Financial assets held for trading (**HFT**) diminished by €103 million. The item main represents derivatives (€304 million) connected with hedges of interest rate risk on behalf of the mutual banks and listed debt securities (€12 million) held for trading purposes.

Equity investments amounted to €1.2 billion, up €54 million on the previous year (€1.14 billion), mainly reflecting subscriptions of capital increases in Iccrea Bancalmpresa (€60 million), BCC Credito Consumo (€4.8 million) and BCC Vita (€4.9 million) and the reclassification of the interest in Satispay to this category (€6.1 million). At the end of the year, total writedowns of equity investments amounted to €2.9 million (Ventis, M-Facility and Banca Sviluppato) to reflect losses for the year that make it unlikely that the carrying amounts of the investments can be recovered entirely. In addition, the Bank received a reimbursement of €21.5 million in respect of units in the closed-end real estate investment fund "Securifondo".

In 2017, the decline in liabilities is mainly attributable to the contraction in amounts due to customers.

## Liabilities

Balance sheet data (€/millions)	31/12/2017	31/12/2016	Change
Due to banks	19,402	13,265	6,136
Due to customers	8,243	24,445	(16,201)
Securities and financial liabilities	6,240	4,630	1,609
Other liabilities	467	371	95
<b>Total interest-bearing liabilities</b>	<b>34,351</b>	<b>42,711</b>	<b>(8,360)</b>
Other non-interest-bearing liabilities	62	66	(4)
Shareholders' equity and risk provisions	1,600	1,597	3
Net profit for the period	5	21	(16)
<b>Total liabilities and shareholders' equity</b>	<b>36,018</b>	<b>44,396</b>	<b>(8,377)</b>

Interest-bearing funding totaled €34.3 billion, a decline of €8.4 billion, primarily reflecting:

- an increase of €8.3 billion in amounts due to banks as a result of an increase in funding in T-LTRO II transactions, net of €2 billion in repayments of maturing deposits;
- a decrease of €16.2 billion in amounts due to customers due to a decline in repurchase transactions with the Clearing and Guarantee Fund;
- an increase of €1.7 billion associated with the issue of new bonds.

Due to banks (thousands)	31/12/2017	31/12/2016	Change
Mutual banks	4,589,629	5,963,742	(1,374,113)
Other credit institutions	14,811,891	7,301,357	7,510,534
<b>Total</b>	<b>19,401,520</b>	<b>13,265,099</b>	<b>6,136,421</b>

Interbank deposits amounted to €19.4 billion (of which €267.3 million in respect of Group banks), up €6.2 billion (€13.3 billion at December 31, 2016). Within the overall aggregate, which includes deposits received from mutual banks (€897 million) for indirect compliance with the reserve requirement, funding from mutual banks fell by €1.4 billion (from €6.0 billion to €4.6 billion).

“Other credit institutions” includes loans from the ECB in respect of advances against securities pledged by the mutual banks and the Group, including TLTRO II financing of €13.8 billion.

Due to customers (thousands)	31/12/2017	31/12/2016	Change
Current accounts and demand deposits	400,771	276,011	124,760
Fixed-term deposits	-	2,223	(2,223)
Loans	7,334,827	23,535,189	(16,200,362)
Other payables	507,782	631,200	(123,418)
<b>Total</b>	<b>8,243,380</b>	<b>24,444,622</b>	<b>(16,201,242)</b>

Funding from customers declined by €16.2 billion on 2016, falling from €24.4 billion to €8.2 billion. The decrease mainly reflects a decrease in repurchase transactions with the Clearing and Guarantee Fund.

The value at December 31, 2017 of securities issued was €5.9 billion (of which €419 million held by Group banks). The aggregate includes both bond hedged against interest rate risk with derivatives, the amount of which is adjusted for changes in the hedged risk as at the reporting date (fair value hedges), and unhedged bonds accounted for at amortized cost. At December 31, the item also includes 4 subordinated loans. For more information on the subordinated debt, please see section 3 under liabilities in the notes to the financial statements.

### Shareholders' equity

The share capital of Iccrea Banca, represented by 22,285,487 ordinary shares with a par value of €51.65 each, is equal to €1,151 million. At December 31, 2017, shareholders equity excluding net profit for the year amounted to €1,598 million, a decrease of €8.1 million on the end of 2016 (€1,606 million).

The main changes comprise:

- an increase of €9.4 million in self-financing generated by retained earnings from 2016, net of the distribution of dividends in 2017;
- a decrease of €0.4 million in valuation reserves;
- a decrease of €0.8 million from the purchase of own shares.

## The income statement

### General aspects

To enable a more immediate understanding of performance, the following tables contain a more condensed income statement compared with the schedule provided for in Circular no. 262/05 of the Bank of Italy.

Income statement data (€/thousands)	31/12/2017	31/12/2016	Change
Net interest income	37,582	50,222	(12,641)
Gains/losses on financial transactions	101,012	96,796	4,216
Dividends	25,241	22,778	2,463
Net fee and commission income	134,937	127,472	7,465
Other operating expenses/income	28,364	29,393	(1,030)
<b>Total revenues</b>	<b>327,135</b>	<b>326,661</b>	<b>473</b>
Personnel expenses	(79,621)	(92,587)	12,966
Other administrative expenses	(192,827)	(211,295)	18,468
Net adjustments of property and equipment and intangible assets	(8,960)	(8,651)	(310)
<b>Total operating expenses</b>	<b>(281,408)</b>	<b>(312,532)</b>	<b>31,124</b>
Gross operating profit	45,726	14,129	31,598
Net provisions for risks and charges	3,036	7,147	(4,111)
Net losses/recoveries on impairment of loans and other financial transactions	(49,550)	(17,105)	(32,446)
<b>Total provisions and adjustments</b>	<b>(46,514)</b>	<b>(9,958)</b>	<b>(36,556)</b>
Profit (loss) from equity investments	(3,082)	(1,960)	(1,123)
<b>Profit (loss) before tax</b>	<b>(3,870)</b>	<b>2,211</b>	<b>(6,081)</b>
Income tax expense	8,622	18,873	(10,252)
<b>Net profit (loss) for the period</b>	<b>4,751</b>	<b>21,084</b>	<b>(16,333)</b>

Net profit for the year, including the positive change associated with the consolidated taxation mechanism and the ACE benefit, amounted to €4.8 million.

While total revenues were virtually unchanged (€327 million), operating expenses declined by 10% compared with 2016 (to €281 million). With regard to revenues, net interest income for 2017 amounted to €37.6 million, down 25.2% on 2016. The decline is essentially attributable to the reduction in interest on government securities as a result of the disposal of the entire HTM portfolio and developments in market interest rates.

Gains on financial transactions increased (to €101 million, from €96.8 million in 2016). A significant contribution came from gains on the sale of securities held in the HTM and AFS portfolios (€86 million overall), largely consisting of government securities (€76 million) and to a lesser extent equity investments in Visa Inc. and Cattolica. Net gains on trading were a positive €16 million, in line with the previous year. Dividends received in 2017 amounted to €25.2 million, an increase of €2.5 million on 2016 (€22.8 million).

Net fee and commission income from services in 2017 amounted to €135 million, up 6% on 2016, mainly reflecting the increase in fee and commission income on cards and a decrease in fee and commission expense of the finance area. On the cost side, personnel expenses in 2017 amounted to €79.6 million, compared with €92.6 million in 2016, which included a non-recurring charge associated with early termination incentives.

Other administrative expenses also decreased by €18.5 million on 2016, to €192.8 million. The reduction reflects the decrease of €35 million in the contribution to the Resolution Fund (BRRD), partly offset by an increase in costs for regulatory compliance projects (Mifid II, IFRS 9) and the formation of the Mutual Banking Group (about €20 million).

Net losses on impairment of assets available for sale, other transactions and loans amounted to €49.6 million. More specifically, losses on AFS assets and other transactions include the writedown of units in collective investment undertakings (€22.1 million on the Fondo Atlante and €18.8 million on Securis real estate funds) and equity securities (€1.2 million), as well as contributions to the mutual bank deposit guarantee fund for the rescue of mutual banks (€1.9 million). Writedowns of loans amounted to €5.6 million.

Finally, in 2017 impairment losses recognized in respect of Ventis, M-Facility and Banca Sviluppo amounted to €3.1 million.

## 6. DEVELOPMENTS WITH GROUP COMPANIES

### 6.1 SUBSIDIARIES

#### Iccrea Bancalmpresa S.p.A.

At December 31, 2017 the bank's loan portfolio had contracted by 0.9% compared with the end of 2016. The decrease mainly involved current accounts (-24.6%) and expired lease transactions (-0.4%), while "other lending" (lease transactions that have not expired, other loans) expanded by 7.8% and mortgage loans rose by 2.8%. Net impaired assets diminished by 11%.

The bank's new lending in the year ending in December 2017, including loans, guarantees and international goods, amounted to about €1.8 billion, broadly in line with budget forecasts. The slight decrease compared with the previous year largely reflected the reduction in the contribution of mutual banks who are not participating in the establishment of the new Mutual Banking Group.

More specifically, developments in loans were as follows:

- the leasing segment, net of corporate finance transactions, posted €830.4 million in new business (-2.2%);
- ordinary lending, net of corporate finance and international transactions, posted business of €484.2 million, down 11.8%, reflecting the contraction in mortgage lending;
- corporate finance registered volumes of €248.8 million, an increase of 19.4%, mainly attributable to the expansion in the acquisition finance, shipping and other corporate finance segments;
- the international segment saw business ease slightly, falling 2.3% to €126.4 million. Other developments saw the channeling of letters of credit (import/export) and international guarantees through the mutual bank system, for a total of €140 million and the decision to extend customer advisory services outside Italy.

Leasing operations, net of corporate finance transactions, accounted for 49.1% of the bank's new lending. The equipment segment expanded by 12.6%, while all the other segments contracted, running counter to the leasing market trend registered by Assilea (+10.7%). In addition to the impact of the contraction in the mutual bank network in the run-up to their participation in the new Mutual Banking Group, other factors affecting performance for the year included the transfer of new business to the subsidiary BCC Lease, especially as regards the auto and industrial vehicle segments.

Assilea figures for 2017 show Iccrea Bancalmpresa with an average market share of 6.15%, putting the company in 6th place among leasing companies.

At December 31, 2017, overall gross bad debts amounted to €895.7 million, down 2.5% compared with the end of 2016, while the coverage ratio for bad debts also increased, going from 57.4% in December 2016 to 60.9% at the end of 2017. As a result, the bank's net bad debts fell to €349.8 million, equal to 4.45% of lending (4.93% at the end of 2016).

Gross exposures unlikely to be repaid came to €958.4 million at December 31, 2017, down 6.4% on the end of the previous year. Their coverage ratio rose, going from 30.4% in 2016 to 33.5% in 2017. Net exposures unlikely to be repaid amounted to €637.2 million, down 10.6% on the end of 2016. The ratio of net exposures unlikely to be repaid to total loans to customers declined from 9.0% at December 31, 2016 to 8.1% at the end of 2017.

The net cost of risk management by the bank in 2017 amounted to €113.9 million (€123.3 million in 2016). The assessment of the performing portfolio at December 31, 2017 showed the need for a collective provision of €47.7 million (€47.5 million in 2016).

Funding, which is centralized with the Parent Company, Iccrea Banca, amounted to €7.4 billion at the end of 2017. Part of the new resources (€500 million) came from the allocation of funds from the T-LTRO II operation, made possible by the increase in the final part of the year in the volume of loans pledged as collateral to the Bank of Italy. At December 31, 2017 those assets had a nominal value of €2.3 billion.

During the period, the Group's centralized Finance unit issued 30 senior plain-vanilla bonds amounting to about €1.5 billion in order to obtain medium/long-term funding correlated with the maturity of its loans to customers. During the year, the remaining bonds issued by the Bank under the EMTN Program listed on the Luxemburg market matured, effectively terminating that program.

Securitization activities were intense in correspondence with the revolving period for the securitization of performing lease receivables carried out in August 2016, for which the bank is the servicer ("Agri#9"). In line with the terms of that transaction, four subsequent assignments of performing lease receivables were carried out during the year, in the total amount of about €305.7 million.

With regard to financial investments, the final part of the year saw the disposal of the investment portfolio in Italian government securities held by the bank, in compliance with the new investment strategy adopted by the Parent Company, which provides for the full centralization of investment activities with the Parent. Total sales of government securities had a nominal value of €868 million, with the concomitant termination of the associated financing transactions. A total of €440 million in government securities reached maturity.

The Bank posted a profit before tax of €19.9 million in 2017, compared with a loss before tax of €37.5 million the previous year. Net profit for 2017 amounted to €15.4 million, compared with a net loss for 2016 of €28.6 million. At December 31, 2017, the tax liability amounted to €4.5 million (compared with a tax receivable of €8.9 million at December 31, 2016).

#### **BCC Credito Consumo S.p.A.**

During the 2017 financial year, the Company continued to distribute consumer credit products (mainly personal loans) through the branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications. As of December 31, 2017, 265 mutual banks were participating in the service.

New lending during the year amounted to €392 million. The 7.5% decrease compared with the previous year is attributable to the migration to the new IT platform, which slowed operations mainly during the summer months. As at December 31, 2017, loans amounted to €932.4 million and consisted almost entirely of loans to customers for consumer credit transactions (€923.4 million), with the remainder represented by amounts due from banks and other loans.

In December 2017, following an in-depth analysis carried out by the Lending, Debt Recovery and Risk Management Area, in concert with the analogous units of the Parent Company, a non-recourse assignment involving non-performing loans with a total nominal value of about €8 million was carried out. The operation generated a loss of only €0.1 million in the income statement for the year due to the provisions for doubtful debts recognized in previous years on the positions in question.

Payables amounted to €858.6 million and are represented by the funding provided by the Parent Company, Iccrea Banca (€736.6 million) and AGOS Ducato (€121.5 million, generated mainly by the previous funding agreement) and by other amounts due to customers for the remainder (€0.5 million).

In 2017, net interest income amounted to €45.8 million, up compared with 2016 (€41.2 million). Gross income amounted to €47.9 million, compared with 43.6 million in 2016.

Administrative expenses, equal to €18.8 million (€19.3 million in 2016), include €4.2 million in personnel expenses and €14.6 million in other administrative expenses. The cost of risk in 2017 amounted to €16.6 million, compared with €13.5 million in the previous year.

The gross operating profit amounted to €15.6 million. After taxes for the year of €4.9 million, net profit totaled €10.7 million.

#### **BCC Lease S.p.A.**

Thanks in part to subsidy legislation, which was also in place the previous year, and in particular the "Sabatini Act" and the "super-depreciation" program, the lease market expanded in 2017.

In this favorable environment, the company ended the year with about 19 thousand new contracts with a value of €206.1 million, compared with about 15,500 contracts and a value of €185.3 million in 2016, an increase of 22% in number and 11% in value.

Gross loans to customers amounted to €387.3 million at the end of the year, compared with €343.1 million in 2016, an increase of 12.9%. Net loans amounted to €366 million, compared with €320 million in 2016. The rising trend in bank borrowing (all intercompany) has essentially paralleled that in lending, increasing to €334.1 million.

Compared with the previous year, the portfolio of new contracts experienced a change in composition, with a reduction in the weight of the auto segment and an increase in targeted lending. The largest increases came in the vendor channel where finance leasing in the equipment segment, which compared with operating leasing was boosted by the “super-depreciation” benefit, gained ground. “Targeted lending” also expanded considerably, thanks in part to a number of important agreements with producers.

Another significant development characterizing 2017 was the use of FEI/COSME guarantees to cover up to 50% of the riskiest part of the portfolio, up to a maximum contract amount of €150 million. At the end of December 2017, 2,857 new contracts were covered by this facility, in the total amount of €47.9 million.

At the end of 2017, gross impaired positions amounted to €28.5 million, compared with €33 million the previous year. The ratio of impaired positions to total lending therefore improved significantly, falling from 9.6% to 7.9%. The ratio of net impaired positions to total loans – with a coverage ratio of 68.8%, compared with 63.1% at the end of 2016 - improved even further compared with 2016, declining from 3.8% to 2.6%. The improvement in the indicator was due not only to the substantial increase in lending but also to closures of impaired positions and the relatively insignificant impact of new impaired positions.

Net interest income was broadly stable compared with 2016 (about €18 million), while operating expenses – comprising personnel expenses of €2.4 million and other administrative expenses of €4.6 million, both falling compared with 2016, as well as marginal amortization charges for investment primarily in application software (€140 thousand) – rose to €7 million, an increase of just 4% despite the start of depreciation of the new information system.

“Other operating expense and income” showed net income of €4.3 million, a substantial rise on the previous year (€3.3 million), reflecting the increase in the number of contracts and the associated ancillary expenses.

Profit before tax amounted to €8.1 million, an increase of 17% on 2016 (€6.9 million), which was even greater than the projection formulated during the planning stage.

Profit after tax totaled €7.7 million, up 29% on 2016 (€6 million).

### **BCC Risparmio&Previdenza SGRpA**

Total assets managed or placed by BCC Risparmio&Previdenza came to €15.3 billion, for growth of about €2.6 billion compared with the previous year. Net funding totaled €2.4 billion.

Assets under management with the company break down as follows:

- 12.59% in investment funds;
- 15.11% in coupon funds;
- 3.68% in supplemental pension funds;
- 18.29% in portfolio management products;
- 50.32% in third-party SICAVs.

The 2017 financial year of the asset management company closed with a pre-tax profit of €25.9 million, more than double the previous year (€12.3 million in 2016), reflecting the increase in both net management fees and performance fees. After taxes of about €7.9 million, net profit amounted to about €18.1 million. More specifically, the main factors contributing to this particularly strong performance were the following:

- an increase of 7.5% in management fees for mutual funds, which amounted to about €52.1 million compared with the €48.4 million posted in 2016. Fee and commission income in 2017 incorporates NAV calcu-

lation fees of €1.7 million (none in 2016), while the corresponding expense is, as provided for in applicable regulations, recognized under other administrative expenses. Net of this amount, growth would have been 4%;

- an increase in performance fees, which rose from €434 thousand in 2016 to €11.1 million in 2017;
- an increase of about 51.7% in fees and commissions for the placement of third-party SICAVs, which went from €48 million to €72.9 million. Of the total, €34.2 million were generated by BCC R&P brand funds and €38.7 million by third-party funds;
- an increase in management fees for pension funds, which went from €4.8 million to €6 million (+25.6%), while the number of participants rose by about 20% compared with the previous year.

As a result of the foregoing, management fees passed through to placement agents also increased substantially, going from €74.9 million in 2016 to €99.1 million in 2017, an increase of 32.4%.

With regard to 2017 costs, personnel expenses fell from €5.7 million in 2016 to €4.7 million last year (-17.7%). Contributory factors in this were a decline in the reimbursement of expenses to seconded personnel and a reduction in early retirement costs, which in 2016 alone had amounted to €628 thousand. Conversely, other administrative expenses (about €13.3 million) increased by 31.7%, reflecting the following developments:

- the classification of the cost for outsourcing the NAV calculation service to the custodian bank under other administrative expenses (€1.7 million, while the corresponding income item is recognized under fee and commission income);
- an increase in commercial entertainment expenses in respect of BCC Retail (€2.3 million, compared with €1.9 million in 2016);
- an increase in entertainment and promotional/marketing costs of €331 thousand and €275 thousand respectively;
- IT expenses totaling €4.2 million, compared with €3.6 million in 2016, for project costs.

The following provides details on developments in the individual business lines.

#### **a) Investment funds**

Funding for 2017 showed net funding of €128 million. Assets managed in funds and funds of funds at year end totaled €1.9 billion.

In October, the two coupon funds denominated BCC Cedola III – 2017 and BCC Cedola III Opportunità – 2017, which reached expiration, were merged into the BCC Monetario and BCC Risparmio Obbligazionario funds, subsequently changing name and investment strategies, becoming “Investi per Obbligazionario Breve Termine” and “Investi per Obbligazionario Medio Termine”.

In addition, during 2017 two new funds were established: “PIR Compliant: Investiper Italia PIR 25” (as from April 2017) and “Investiper Italia PIR 50” (as from October 2017). They respectively raised €188 million with 20,500 contracts and 153 banks active and €28 million with 4,160 contracts and 113 banks active.

#### **b) Coupon funds**

Coupon funds posted net redemptions of €217 million. Assets under management in coupon funds amounted to €2.3 billion at the end of 2017. As from March 6, 2017, the rules of the “Aureo Cedola I” fund were amended, with a change in investment strategy and name (“Investiper Cedola Giugno – 2022”).

#### **c) Supplemental pension funds**

In 2017, the company confirmed the positive trend in funding in supplemental pension funds, attracting net funding of €101 million for total assets under management of €563 million.

#### **d) Securities investment products, institutional asset management, insurance asset management**

Net funding was a positive €114 million, divided into the following lines: (i) retail (up €15 million), (ii) institutional (down €8 million) and (iii) insurance (up €107 million). Assets under management at year-end totaled €2.8 billion.



### e) *Third-party SICAVs*

Total assets placed at year end came to €7.7 billion, with net funding totaling €2.2 billion. As planned, the company launched 4 new funds in collaboration with selected partners for total funding of about €1.5 billion.

Total assets under management/placement went from €12.7 billion at the end of 2016 to €15.3 billion. The increase was mainly attributable to the placement of third-party SICAVs, which rose by €2.4 billion, as well as the pension fund (+€116 million) and funding under discretionary investment relationships (€114 million). Running counter to these positive developments, assets in open-end funds contracted by a total of €48 million, reflecting the normal outflow of coupon fund subscribers as the funds approached expiration and the income was distributed to investors.

### **Banca Sviluppo S.p.A.**

In 2017 Banca Sviluppo S.p.A. was involved in the project for the progressive sale of its branches to local mutual banks, in line with the provisions of the bylaws on the bank's mission, as well as the strategic guidelines issued by the Parent Company.

During the year, the sale of 39 branches was approved. The volume of direct funding and lending accounted for by the branches for which offers were accepted, for which completion of the transactions within 12 months is considered "highly probable", represent 32% of the banks direct funding and 30% of its loans to customers .

More specifically, in the fourth quarter of 2017, three sale transactions were completed, all relating to branches located in Veneto, as detailed below:

- nine branches to BCC Veronese, with €130.8 million of loans to customers and €206 million of direct funding;
- one branch to BCC di Vestenanova, with €6.7 million of loans and €5.9 million of direct funding;
- four branches to BCC del Vicentino, with €22.5 million of customer loans and €90.9 million of direct funding.

Loans to customers at the end of 2017 amounted to about €1 billion, a decrease compared with 2016 that reflected the disposals and repayments, which were not offset by new loans. Impaired loans, totaling €360 million gross of provisions, declined by 11.3%, while net NPEs amounted to €176 million, a decrease of 22.1% compared with 2016. The total coverage ratio for impaired positions was 51.1%, compared with 44.4% in 2016.

Direct funding, which totaled €1.6 billion at December 31, 2017, decreased by 26% compared with 2016, due to the disposals carried out in the fourth quarter and the transfer of part of the aggregate to indirect funding.

Net interest income decreased by €2.8 million, reflecting a decrease of €593 thousand in net interest income from customers and, for the remainder, a reduction in net interest income on treasury operations linked to the sale of the bank's HTM portfolio and the disposal of investments to meet liquidity needs linked to the payment of the shortfalls of the branches sold in the fourth quarter.

Gross income amounted to €59.9 million, an increase of €3.7 million on 2016, largely reflecting the capital gains on the sale of the securities in the HTM portfolio.

Operating expenses amounted to €55.5 million, an increase on 2016 due to the inclusion of the branches acquired in 2016 for the full year.

Writedowns and writebacks of loans totaled showed net writedowns of €9.1 million, essentially due to an increase writedowns of bad debts, only partially offset by writebacks on defaults and the collective provision for performing loans. Gains/losses from disposal of investments showed net gains of €5 million, thanks to the goodwill received from the sale of the branches net of the capital losses on the buildings.

The income statement at December 31, 2017 reported a pre-tax profit of €329 thousand and a net profit of €252 thousand, a decrease of 76% compared with 2016.

## BCC Sistemi Informatici

In 2017, the company's activities focused not only on the usual objectives of consolidation and evolution of the information system for banks, but also on participation in projects for regulatory compliance upgrades and the establishment of the Mutual Banking Group. The company posted a net loss of €15 thousand for the year.

The value of production amounted to €83.4 million, broadly in line with the previous year. The figure was affected by the reduction of €1.8 million associated with the termination of service delivery to customers who switched to another IT system (mainly in Friuli, Emilia and Sicily), €0.9 million connected with the reduction in the number of banks involved in extraordinary transactions and a total of €0.7 million for electronic banking and other services. The decrease was partly offset by the increase in capitalized costs for internal projects (€0.8 million) and other revenues and income (€0.7 million).

The €0.7 million increase in production costs, which stood at €83.4 million in 2017, was mainly attributable to net increases and decreases in the main items of which it is composed. The increases include a rise of €6 million in costs for services and €1.5 million in other operating expenses. Among the decreases, there was a reduction of €6.4 million in personnel expenses, reflecting the reduction the workforce during the year as a result of retirements and those who in the previous year - following the agreement of July 26, 2016 signed by the Parent Company – asked to participate in the Solidarity and Income Support Fund. Rental and lease costs decreased by €1.2 million, mainly due to the transfer of real estate leases to BCC Solutions following the centralization of facility management services with the company designated by the Parent Company.

## BCC Solutions

During 2017 BCC Solutions completed the real estate redevelopment and urban development project at the Lucrezia Romana headquarters complex. It also continued its facility management activities for the Iccrea Banking Group offices and the offices of the subsidiaries. In this area, the constant application of advanced property and facility management methods and processes enabled the achievement of operational and strategic objectives that had a positive impact both at company level and within the Iccrea Banking Group community.

The 2017 financial year closed with a net profit of €2.4 million after taxes of €0.9 million. The company is structurally oriented towards economic and financial equilibrium, posting strong profits and demonstrating an elastic correlation between increases in operating costs and a proportional change in core revenues. Core revenues are constantly around €35.8 million, with operating expenses of €28.1 million.

The balance sheet figures are correlated with the borrowing policies implemented during the year, above all in relation to the commitments associated with the investments carried out, as shown by the strong increase in capital employed (+16.5%). Shareholders' equity decreased (-2.8%) as a result of the distribution of dividends of €4 million to shareholders during 2017.

## BCC Factoring

The year ended with a gross loss of about €2.4 million (€1.8 million net of the positive tax effect of €0.6 million).

Gross income reflected developments in interest income and fees and commissions, totaling €7.6 million. The figure represents a significant decline (12%) from its level in 2016.

Net interest income amounted to €4.6 million, down on the €4.9 million posted in 2016, representing a decline of 4.7% for the year as a result of the rapid and steep fall in average interest rates and spreads, a trend that had already emerged the previous year.

The performance of fees and commissions confirmed the downward trend registered in 2016 (€2.9 million in net fee and commission income in 2017, compared with €3.7 million in 2016). The figure reflects developments in the financial market, which led to a decline in the average commission applied of about 0.27% in 2017 (compared with an increase in average commissions of 0.30% the previous year), together with higher reinsurance costs as a result of the increase in turnover and fees paid to the banks presenting the transactions. Net income from services therefore reflected a temporary general decline in the profitability of the business with a consequent decrease in averages fees, although the trend should reverse in 2018.

In general during the year, the quality of assets deteriorated further. Gross impaired assets amounted to about €66.8 million at the end of the year, compared with €61.7 million in 2016. The ratio of these positions to total lending amounted to 12.3% on a gross basis (6.6% on a net basis) compared with 11.5% on a gross basis in 2016 (6.3% on a net basis). Gross bad debts increased by 6.2% (€27.8 million), while positions unlikely to pay increased 28% (€11.7 million), attributable in particular to a number of large-value positions. Past due exposures amounted to €27.2 million, an increase of 3.3%, most of which were regularized on an ordinary basis following the close of the year.

The coverage ratio for bad debts and positions unlikely to pay amounted to 82.7% (82.5% in 2016), while that for bad debts alone rises to 95.9% (87.3% in 2016); the coverage ratio for positions unlikely to be repaid was 51.24% (68.3% in 2016). The cost of risk remained high and slightly above projections but consistent with the risk level of corporate business. Net writedowns totaled €3.6 million, essentially in line with the previous year.

Operating expenses fell significantly to €6.7 million, down from €8.3 million in 2016 (-19%). In general, personnel expenses offered savings compared with the previous year, above all due to the exit of personnel with a significant specific cost in 2016 and the non-recurring extraordinary charges recognized in 2016 linked to employees participating in the Mutual Bank Solidarity Fund. During the year, the average number of internal personnel was almost unchanged at 34. Other operating expenses – which in 2016 were affected by initiatives connected with the IT migration (€800 thousand) – generally did not diverge from their ordinary level, with the exception of certain expenses incurred in respect of the IT platform in order to make it consistent with the variously requirements of the business and compliant with new regulations (e.g. IFRS 9 and supervisory reporting).

### **BCC Gestione Crediti**

The year ended December 31, 2017 closed with a substantial improvement in performance compared with the previous year. The company increased revenues by about €3 million (+28% compared with 2016), while costs increased by 6% compared with the previous period. The increase in revenues, net of the increase in administrative costs, produced an EBITDA of about one and a half times the EBITDA posted for 2016 (€3.8 million, compared with €1.4 million), reflecting the introduction of a new operating model, the strengthening of asset management activities and the consequent overall increase of more than one and a half times in the volume of collections.

Net profit increased about six times or by about €2.4 million.

### **BCC Retail**

The accounts for 2017 closed with a loss of €141 thousand, attributable both to an increase in intercompany costs compared with budget estimates and to a reduction in revenues related to insurance brokerage. The loss concerned the entire insurance brokerage segment, while the commercial entertainment segment reported broad balance between costs and revenues.

The total value of production in 2017 was equal to €4.8 million, a significant increase of €546 thousand (+13%) on the previous year. The increase was mainly attributable to the indemnity of €0.4 million received from Old Mutual. Without considering this extraordinary income, revenues for 2017 amounted to 4€4 million, an increase of €0.1 million on 2016.

Overall production costs at December 31, 2017 amounted to €5 million, a decrease of €0.2 million compared with the previous year.

## 6.2 ASSOCIATES

### BCC Vita S.p.A.

On the balance sheet, investments totaled €2.8 billion, an increase of 7.4% compared with December 31, 2016. Technical reserves came to €2.7 billion, an increase of 7.8% compared with the previous year. Total premium income came to €324 million. The company closed the year with a net profit of €8.5 million.

### BCC Assicurazioni S.p.A.

Investments for the year totaled €29.5 million, an increase compared with December 31, 2016 (€24.7 million). Reinsurers' share of technical reserves amounted to €38 million (€36.7 million at December 31, 2016). Technical reserves under liabilities came to €56.6 million, compared with €49.9 million at December 31, 2016. The company closed the financial year with a net loss of €867 thousand (€2.3 million at December 31, 2016) and premium income of €37.8 million, compared with €34.7 million the previous year.

### BCC Accademia S.c.p.A.

Investments, including cash and cash equivalents, totaled €2.4 million. The company closed the year with net income of €49 thousand (€8.5 thousand at December 31, 2016).

### Hi-MTF S.i.m. S.p.A.

The company, which is authorized to manage multilateral trading facilities, operates the Hi-MTF market, a multilateral bond market authorized by Consob under the legislation introduced with the MiFID, in which Iccrea Banca is a shareholder along with Banca Aletti, Centrosim, ICBPI and Banca Sella. The year closed with a net profit of €74 thousand, in line with the net profit of €71 thousand posted in 2016. Equity at December 31, 2017, totaled €6.2 million.

### Car Server S.p.A.

Car Server is the leading entirely Italian-owned company engaged in the leasing of vehicle fleets for businesses, in which Iccrea Bancalmpresa has a 19.01% interest. The purchase of the equity investment in Car Server falls within the scope of efforts by Iccrea Bancalmpresa to enhance its offering of automotive financial services (either directly or through its subsidiary BCC Lease). The company closed 2017 with a net profit of €8.5 million. The company's equity came to €46.7 million at December 31, 2017 (compared with €41.2 million at December 31, 2016).

### M-Facility S.r.l.

M.Facility S.r.l. was established in order to create an innovative settlement system for travel agencies, tour operators, and mutual bank customers with the goal of reducing the time it takes to execute direct debit transactions. The year ended December 31, 2017 closed with a net loss of €214 thousand (compared with a net loss of €236 thousand in 2016).

## 7. POSITIONING OF THE GROUP WITHIN THE CONTEXT OF THE TRANSPARENCY EXERCISE OF THE EUROPEAN BANKING AUTHORITY

As in previous years, in 2017 the EBA - in coordination with the ECB - conducted a transparency exercise at European level to help foster market discipline, with the aim of improving the understanding of the European banking sector as well as to provide details on the different aspects of bank balance sheets and ensure comparability among European banking groups. The exercise involved 132 banking groups in 25 euro-area countries, with the publication of the data at December 31, 2016 and June 30, 2017.

The EBA's publication of information on the financial position, profitability and credit quality of European banks revealed a 6.3% reduction in assets between December 31, 2016 and June 30, 2017, mainly due to the reduction exposures in derivative instruments and debt instruments, while banks continued to increase lending, especially to the corporate segment (SMEs) and households (mortgages and consumer credit).

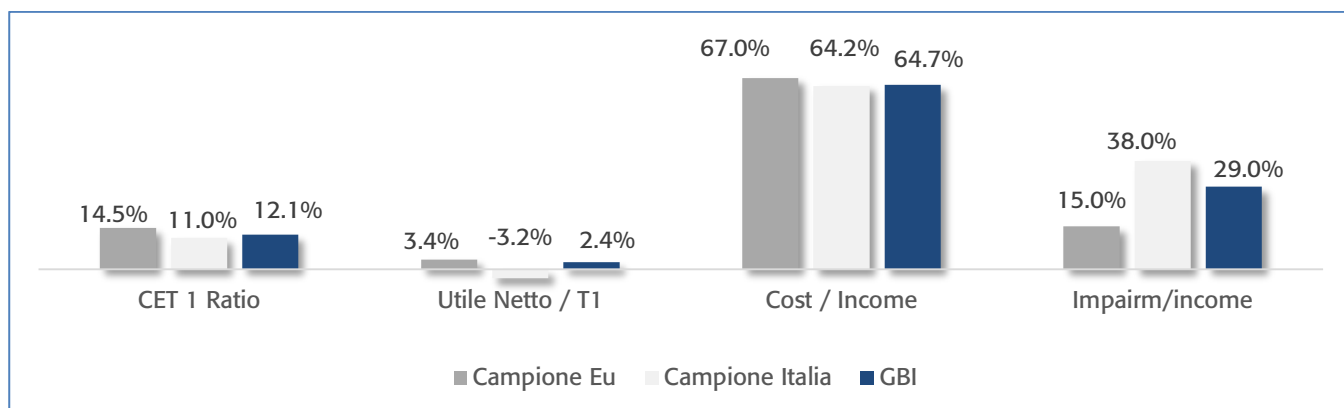
Between December 31, 2016 and June 30, 2017, the average NPL ratio of European banks fell from 5.4% to 4.5%, reflecting the progress made in cleaning up bank balance sheets. However, about a third of the countries in the euro area still have NPL levels above 10%, with significantly high levels of such exposures (about €893 billion at the European level). The coverage ratio for impaired loans averaged 45% for European banks.

The financial soundness of the European banking sector is improving, with a slight increase in capital ratios. This increase is mainly due to the reduction in risk exposures, reflecting an improvement in the quality of banking sector assets through repositioning of some core assets and the disposal of other less profitable assets. In this context, the transitional and fully loaded CET1 ratios at June 30, 2017 were 14.3% and 14% respectively, an increase of 60 basis compared with June 30, 2016. The TCR was 18.6%, an increase of 80 basis points compared with the previous period.

Profitability remains a weakness for the European banking industry. The return on equity remains low and the banking sector is struggling to generate sufficient margins through traditional intermediation activity, in an environment of low interest rates. Furthermore, there is greater competition in the banking sector, following the entry of new competitors such as FinTech companies, which has put considerable pressure on revenues in traditional business segments (e.g. payment systems). Some banks have launched digitization projects to improve their operational efficiency in traditional lines of business. These new business opportunities present certain risks, including IT-related risks (cyber risk). Moreover, actions to reduce operating costs have prompted some operators to outsource IT services, creating possible weaknesses in terms of security and data governance.

In order to conduct a positioning analysis of the Iccrea Banking Group with respect to its main Italian and European competitors, a number of key indicators have been selected for financial position, credit quality and profitability. The ratios presented below refer to December 31, 2017 for the Iccrea Banking Group, while the comparison with a panel of Italian banks (Intesa Sanpaolo, Unione di Banche Italiane, Credito Emiliano, Banco BPM, Banca Carige, BP di Sondrio Banca MPS and BPER Banca) and selected European banks (a sample of 121 European banks, excluding Italian and the Iccrea Banking Group) is presented at June 30, 2017 for financial ratios and December 31, 2016 for performance indicators (data from EBA 2017 EU-wide Transparency Exercise).

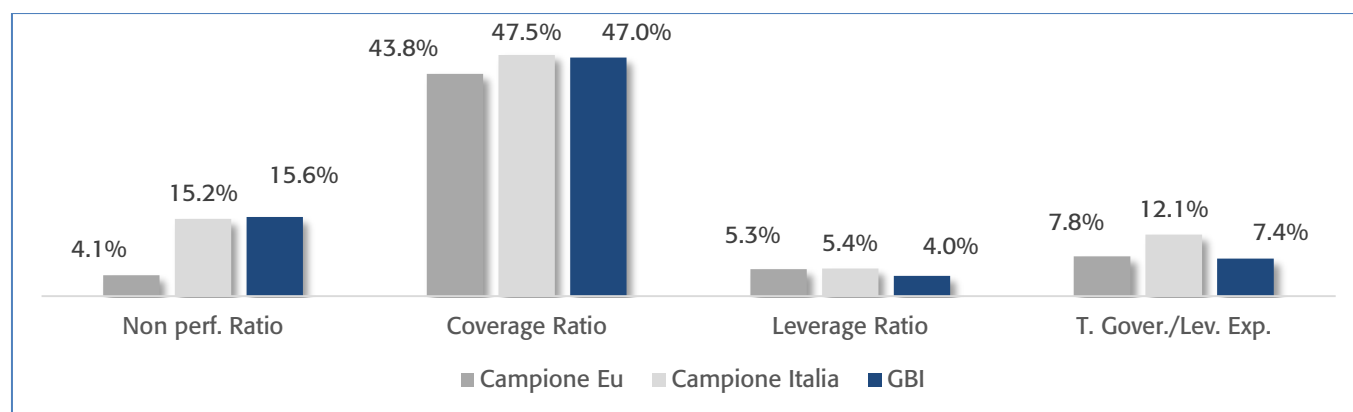
The results of the analysis of the positioning of the Iccrea Banking Group with respect to the main Italian and European groups are shown below.



The CET1 ratio of the Iccrea Banking Group was 2.4 percentage points lower than the average for the EU sample and 1.1 points higher than the average for the sample of Italian banks (see chart above). This is the result of the attention to capital soundness that the Group has pursued over the years, with the prudent management of exposures and the implementation of strategic choices to increase top-quality capital.

As regards profitability in relation to capital (Tier 1), the figure for the Iccrea Banking Group is below the European banks of the sample (-1 percentage point) and above that for Italian banks (+4.8 points). While on the one hand the comparison with domestic banks shows the recovery of efficiency at the consolidated level for the Iccrea Banking Group, on the other hand this must be assessed in the context of the strategy of more substantial risk coverage by our Italian competitors.

The operating efficiency of the Iccrea Banking Group is substantially in line with the sample of Italian banks, considering the Iccrea Banking Group's unique business model in its role as a second-level bank and the fact that in 2017 the Iccrea Banking Group incurred a number of extraordinary costs.



The NPL ratio level is in line with the sample of Italian banks (+0.4 percentage points) and significantly higher than the sample of European banks (+11.4 points) due to the level of impaired exposures in Italy compared with the European average. The coverage ratio for the Iccrea Banking Group is slightly lower than that of the domestic banks (-0.5 percentage points) and much higher than that of the European banks (+3.2 points). This is attributable to the large volumes of impaired exposures secured by collateral, especially in the form lease transactions. In the comparison with Italy, however, it should be borne in mind that the figure considered here (at the end of June 2017 for the panel banks) does not take into account the risk reduction actions that may have been carried out in the second half of 2017.

The above situation, taking due account of the approximations used as a result of the temporal gap in the comparisons (December 2017 for the Iccrea Banking Group, June 2017/December 2016 for the competitors), is reflected in the metric for the cost of risk, which relation to gross income is lower than the sample of national banks (-9 points), but significantly higher than the sample of European banks (+14 points).

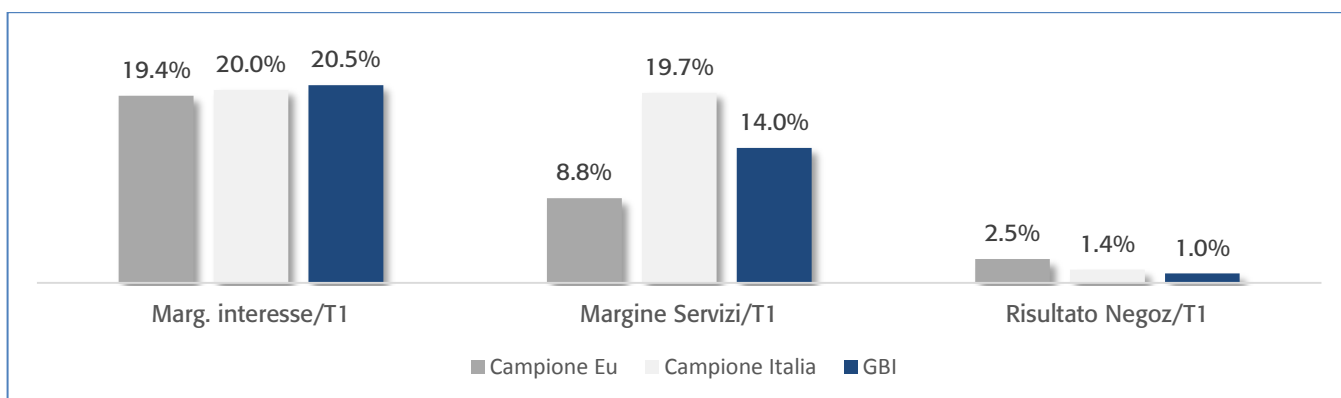
Following the disposal of government securities carried out at the end of the year, in line with the provisions of the strategic plan, the Iccrea Banking Group's leverage ratio increased compared with the previous year, even though it is still lower than the Italian sample (-1.4 percentage points) and the European sample (-1.3 points). Precisely as a result of the disposal of government securities, the proportion of the latter in the assets of the Iccrea Banking Group is lower than the average for national banks (-4.7 points) and that for European banks (-0.4 points). Our positioning with regard to the leverage ratio is essentially dependent on the business model of the Iccrea Banking Group, which, in operating as a second-level bank, performs an important service activity to providing the mutual banks with access to wholesale collateralized liquidity markets, including both the market in general and the European Central Bank. This activity generates a significant exposure to the mutual banks, which produces a low leverage ratio but does not translate into a high level of risk-weighted assets (RWA) as a result of the presence of collateral, largely represented by euro-area government securities.

As regards the positioning of the Iccrea Banking Group with respect to the structural components of the income statement, which must take account of the Iccrea Banking Group's role as a second-level group with respect to the mutual banks, the following aspects help explain the results shown in the following chart:

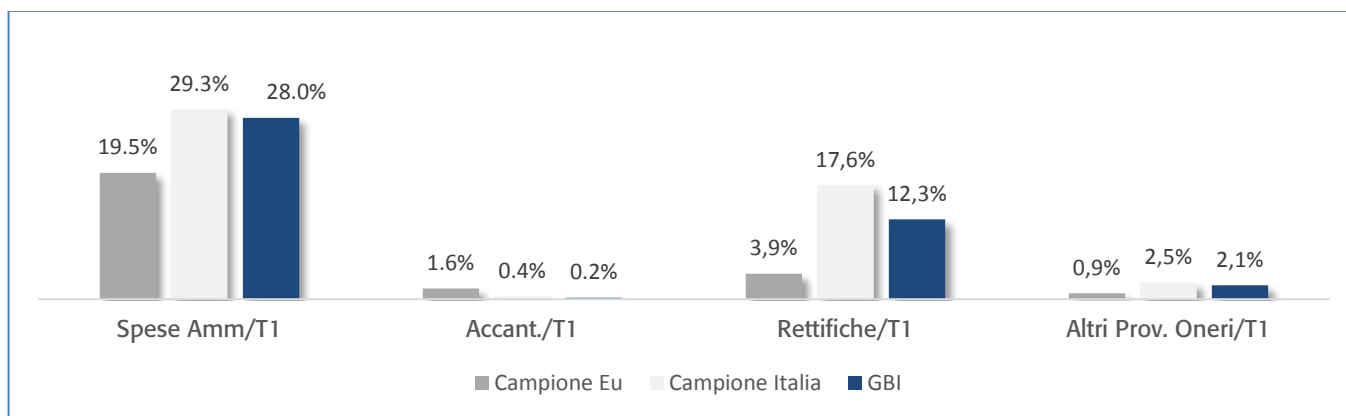
- net interest income as a proportion of T1 capital appears to be in line with that of Italian banks (+0.5 percentage points) and is higher than that for the sample of European banks (+1.1 points). This reflects the significant intermediation activity performed in providing access to the markets for

the mutual banks as well as the positive effects of the activity carried out as the lead institution in TLTRO operations for the mutual banks;

- services make a larger contribution than they do for the European banks (+5.2 points) but not the Italian banks (-5.7 points). The difference with the national banks is justified by the special nature of the business model of the Iccrea Banking Group, which operates as a second-level bank and therefore retains only a portion of the margins generated by services, while the remainder goes to remunerate the mutual banks, who bear the costs of the branch network;
- the contribution from trading activities is substantially in line with that of the national banks (-0.4 points) but lower than that of the sample of European banks (-1.5 points). However, this difference is justified by the Iccrea Banking Group's service mission in respect of the mutual banks and by the lower volume of transactions in derivatives.



The following chart shows the positioning of the Iccrea Banking Group with respect to the components of costs, expressed as a proportion of T1.



The comparison with the national and European panels shows that:

- administrative expenses are lower than those of the national sample (-1.3 points) and higher than those of the European banks (4.2 points). Nevertheless, some expenses incurred by the Iccrea Banking Group in 2017 were connected with the start of numerous projects related to the formation of the Mutual Banking Group, the impact of which was recognized in this item of the income statement;
- provisions for operational risks are broadly in line with the national sample (-0.2 points) and lower than those of the European panel (-1.4 panel);
- loan writedowns performed better than the national sample (-5.3 points) but diverge significantly from those for the European panel (+8.4 points), further underscoring the crisis in Italy's real economy;
- the "other income and expenses" item is only slightly lower than that of the Italian banks (-0.4 points) but is well below the European average (-1.2 points).



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

### RISKS

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

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

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

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

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

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

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

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

- **credit risk:** the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction;
- **market risk:** risk of incurring losses arising from unexpected adverse movements in market prices of financial instruments, currencies and goods. The following sub-categories are the most significant:
  - risk on the trading book position, i.e. the risk arising from fluctuations in the price of securities;
  - credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- **credit valuation adjustment (CVA) risk:** a "credit valuation adjustment" is an adjustment of market's interim assessment of transactions with a counterparty. That adjustment reflects the current market value of counterparty risk in respect of the entity. It does not reflect the current market value of the entity's credit risk in respect of the counterparty.
- **operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;

- **interest rate risk on the banking book:** risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- **concentration risk:** risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- **strategic risk:** the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes;
- **sovereign risk:** risk of loss arising from a sovereign state counterparty defaulting on its contractual obligations or a decline in the sovereign counterparty's credit rating;
- **real estate risk:** risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations);
- **equity risk:** risk of loss arising from a change in the value of equity instruments in the banking book;
- **liquidity risk:** risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the existence of restrictions on the sale of assets (market liquidity risk) resulting in capital losses;
- **residual risk:** risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

## UNCERTAINTIES

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

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

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

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

With specific regard to NPLs, in September 2016 the ECB issued "Guidance to banks on non-performing loans", the result of extensive work on NPLs conducted by supervisory experts. The guidance contains a summary of the best practices found and represents supervisory expectations for the future. The guidance is aimed at all significant institutions subject to the direct supervision of the ECB, including their national and international subsidiaries. To the extent possible, however, banks are required to promote the rapid convergence of the regulatory and accounting views.

The regulatory framework is being strengthened even further in 2018 in the light of the EBA's publication of a *consultation paper* on managing NPLs and *forborne exposures* ("*Draft Guidelines on management of Non-Performing and Forborne Exposures*" published on March 8, 2018, with the consultation due to end on June 8, 2018).

In order to develop and implement a suitable strategy for managing NPLs, banks must upgrade their internal organizations and, in particular:

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

In addition, preparatory activities for the start-up of the Mutual Banking Group continued in 2017, in compliance with the guidelines set out in the Reform Law with an approach based on thematic projects supported by working groups in which all mutual banks that will be part of the Group are participating.

Discussions with the supervisory authorities have highlighted the need for banking groups to undergo a comprehensive assessment which, as in 2014, will be based on a review of asset quality and a new stress test. Accordingly, the project activities of the Mutual Banking Group envisage the establishment of joint working groups with the mutual banks dedicated to the preparation of the analysis of asset quality.

In order to ensure ongoing dialogue with the ECB, a schedule of meetings and document releases was established to enable preliminary verification of the most relevant areas in the run-up to submission of the application. Close contacts were initiated with the supervisory authorities, who will have to approve the main contractual documentation (articles of association, cohesion contracts, cross-guarantee schemes). In addition, organizational structures are being revised in order to strengthen internal controls and decision-making arrangements in line with market best practice.

The main regulatory changes that will impact the Group include:

- the elimination of prudential filters for the computation of the OCI reserve within CET1 for financial portfolios;
- the gradual introduction of the MREL, i.e. the minimum amount of liabilities comprised of positions subject to bail-in, starting in 2017, with the consequent potential impact on the structure of liabilities and the cost of funding;
- introduction as of January 1, 2018 of IFRS 9, the new accounting standard for financial instruments, which upon first-time adoption will affect equity through increased impairment – deriving mainly from the new methods for measuring performing loans – and a greater impact on impairment looking forward once fully implemented;
- the increase to 100% of the minimum requirements for the Liquidity Coverage Ratio (LCR) from the previous level of 80%.
- An assessment was made of the risks and uncertainties described above to underscore the effect of changes in parameters and market conditions on business performance. The Group has implemented tools for measuring the potential impact of risks and uncertainties on its operations (specifically sensitivity analysis and stress testing), which enable it to promptly and continually adjust its strategies – in terms of the model

for distribution, organization and management/rationalization of costs – to changes in its environment. Risks and uncertainties are also under constant observation through the risk policies adopted by the Group: the policies are updated to reflect changes in strategy, the operating environment and market expectations. They are monitored periodically to check the status of their implementation and their suitability. The analyses conducted indicate that the Group is able to address the risks and uncertainties to which it is exposed, confirming the going-concern assumption.

## 9. INTERNAL CAPITAL AND LIQUIDITY ASSESSMENT PROCESS

In November 2016 the EBA published the final version of the report on the “Guidelines on ICAAP and ILAAP information collected for SREP purposes”, aiming to ensure the convergence of supervisory practices in the assessment of ICAAP and ILAAP. With the transmission at the start of 2017 of “Technical implementation of the EBA Guidelines on ICAAP and ILAAP information collected for SREP purposes” containing specific technical indications for the transmission of relevant information in this area, the ECB also required Iccrea Banca to conduct ICAAP and ILAAP in accordance with the letter on the “Supervisory expectations on ICAAP and ILAAP and harmonized information collection on ICAAP and ILAAP” of January 2016 and confirmed for 2017.

The regulatory framework is being developed and strengthened in the light of the publication of the ECB guidelines now in consultation on a series of principles that will be considered as from 2019 by the supervisory authorities in evaluating the ICAAP/ILAAP of credit institutions within the SREP process (see “ECB guide to the internal capital adequacy assessment process” and “ECB guide to the internal liquidity adequacy assessment process” published in March 2018).

### ICAAP

The Iccrea Banking Group, in accordance with the methodological framework described, conducted an assessment of its current and prospective capital adequacy, taking into account both normal operations and the occurrence of plausible adverse situations.

These assessments were made over a time horizon consistent with the Iccrea Banking Group’s strategic plan (2018–2020) and the respective results led to the verification and control of the overall soundness and robustness of the assessments performed in the course of other strategic processes, such as the risk appetite framework and strategic-operational planning.

The assessments demonstrate, for the entire time horizon considered, a situation and a profile at the consolidated level of overall capital adequacy. That conclusion is supported by:

- qualitative and quantitative evidence demonstrating that for the entire period total capital exceeded total internal capital, derived from the exposure to individual risks determined under different scenarios (baseline and adverse);
- compliance with the minimum prudential requirements established by the supervisory authorities based on SREP for the entire time horizon and the internal requirements determined by management for ICAAP purposes by the Iccrea Banking Group.

In addition, the assessment performed on the ICAAP governance system and on the individual management processes found no thematic and analysis areas that present problems or significant deficiencies. Therefore it is possible to conclude that the ICAAP governance system and the underlying processes at the consolidated level are adequate as a whole.

### ILAAP

The Iccrea Group’s governance and liquidity risk management model is a “centralized” model. The Parent Company is responsible for the overall governance and liquidity risk of the Group since:

- it is responsible for establishing the Group’s liquidity risk management policies;
- it centrally monitors liquidity risk exposure (operational and structural);
- it manages liquidity risk at the consolidated level by defining the funding plan consistent with current and prospective operations;
- it establishes and governs the system of internal transfer prices.

The Liquidity Policy and the Intragroup Funding Agreement are therefore crucial. They were presented to the ECB, which responded with a letter dated February 17, 2017 granting a liquidity waiver (an exemption from compliance with the liquidity coverage and reporting requirements) on an individual basis to Iccrea Banca, Iccrea

## BancaImpresa and Banca Sviluppo.

The ILAAP contains comprehensive analysis of the Group's liquidity position in terms of both short-term and structural liquidity risk under normal operating conditions and in adverse stress conditions.

Specifically, the assessment regards the adequacy of the financial resources available to cover liquidity and funding risks, as well as the suitability of the processes, safeguards and controls for such risks.

The results of the ILAAP show an "adequate" liquidity and funding profile for the entire time horizon considered. This assessment is supported by qualitative and quantitative evidence that indicate over the short- and the medium/long-term a risk profile for the LCR and NSFR indicators that exceeds the internally defined minimum threshold. In the short and the medium term, at December 31, 2017, the Group had a sound liquidity position, which can be summed up as follows:

- the liquidity coverage ratio remains above the risk tolerance (100% in 2017);
- the Group's survival period was constantly greater than 3 months and therefore complying with the limits established by the Group in 2017.

The intraday liquidity position is monitored daily using three additional metrics provided for in the Liquidity Policy in accordance with the instructions of the Basel Committee ("maximum intraday liquidity usage", "total payments" and "time-specific obligations").

From a long-term standpoint, at December 31, 2017 the Group had a sound funding position that can be summed up as follows:

- the NSFR indicator in 2017 always exceeded the risk tolerance level minimum for 2017;
- the Group's funding channels are diversified (mainly wholesale) and envisage methods of funding on collateralized markets through the ECB and/or the Clearing and Guarantee Fund;
- the Group's funding is composed almost entirely of transactions in euros.

The assessments of the entire ILAAP governance system and the management processes found no thematic and analysis areas that present problems or significant deficiencies.

## RECOVERY PLAN

In the process of complying with Directive 2014/59/EU (BRRD), which establishes a common framework for the recovery and resolution of credit institutions and investment firms, the Iccrea Banking Group responded to the ECB's letter of August 4, 2017 concerning the "Assessment of the Recovery Plan of the Iccrea Banking Group for 2017" and containing its recommendations based on the assessment it performed of the Group's entire recovery framework.

In that communication, the JST acknowledged the improvements made in the 2017 Recovery Plan, the consequence of the measures to strengthen recovery arrangements that were introduced in response to the comments of the supervisory authorities on the occasion of the previous assessment, which had been conveyed to the Group on June 23, 2016.

The Recovery Plan is an internal document that details the measures that the Group plans to take to restore operations in the case of serious difficulty and outlines the strategies and actions to be taken in the event of crisis to ensure business continuity and to preserve critical business assets and the primary common services (within and without the Banking Group).

The Recovery Plan is strategically important at the consolidated level and therefore is based on Group data, processes and systems. The Recovery Plan, starting with an analysis of the Group's business and operational and organizational characteristics, addresses the following areas:

- group structure: group structural arrangements, business model and risk strategy, significant legal entities, core business lines, critical functions and internal and external interconnectedness;
- recovery indicators and thresholds, recovery options and stress scenarios; i.e. the underlying qualitative/quantitative methodological factors:
  - the definition and calibration of thresholds to activate recovery indicators (recovery triggers, early warnings and monitoring indicators);

- the types of stress events used (systemic, idiosyncratic and combined) in the various scenarios to assess the Group's capital adequacy and liquidity profile;
- the identification of the recovery options to be activated in the event of a crisis and the relative assessment of the impact in the various adverse scenarios assumed.
- recovery governance and communication, i.e. regarding the phases, roles and responsibilities in the process of defining, implementing and managing the Recovery Plan, the escalation and consequence management mechanisms and the processes for disclosing information to internal and external stakeholders.

More specifically, in addition to reorganizing the entire document, the primary changes made to strengthen the new version of the Recovery Plan in 2017 involved:

- strengthening the governance and escalation mechanisms to be activated in a potential crisis situation associated with a breach of one of the recovery trigger thresholds specified in the Plan;
- more detailed description and disclosure of specific areas requested by the supervisory authorities, such as: preparatory measures to be implemented in the event of activation of options in response to a crisis; measures to mitigate the risk that those options prove ineffective; the hypotheses and assumptions underlying the definition of the hypothetical stress scenarios used to represent an overt crisis on the basis of which the recovery strategies of the Iccrea Banking Group are defined; etc.;
- strengthening the overall operating model underlying the recovery framework through:
  - the extension of the scope of the indicators, including the Return on Assets (ROA) indicator within the profitability profile;
  - the calibration of "Early Warning" and "Recovery Trigger" thresholds for the macroeconomic and market-based indicators, replacing the previous ones, which had the sole purpose of identifying adverse movements in the respective variables, the breaching of which triggered the activation of in-depth analysis by the specialized technical units involved in the recovery process;
  - reinforcing the overall stress testing framework used by introducing specific assessments linked to the vulnerabilities of the Iccrea Banking Group business model identified by the supervisory authorities during the SREP.

On November 28, 2017 the ECB notified Iccrea Banca, in the course of the annual SREP, of its decision to establish prudential requirements, taking into account the results of the 2016 supervisory stress tests, supplemented by the interest rate sensitivity analysis of the banking book and stress tests conducted by supervisory authorities, as well as the information received in the course of ordinary supervisory activities.

Specifically, the ECB required that it maintain a total SREP capital requirement (TSCR) of 9.75%.

In light of the foregoing, the overall capital requirement (OCR) that the Group must meet is calculated as the sum of the TSCR and the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU. This buffer is equal to 1.875% for 2018. The Group's OCR for 2018 is therefore 11.625%.

In line with its previous communication, the ECB provides additional factors to be assessed that better qualify the results of its decisions:

- in general the Group has in place efficient, effective and comprehensive strategies and processes for measuring, maintaining and allocating internal capital;
- the amount, type and allocation of internal capital is generally adequate to cover the kind and level of risk to which the Group is or could be exposed;
- the Group implemented sound strategies, policies, processes and systems to identify, measure, manage and monitor short- and medium/long-term liquidity risk.

## 10. INTERNAL CONTROL SYSTEM

In the design of its internal control system, the Group follows the principles set out in applicable legislation and by the supervisory authorities, with a special focus on the following:

- proportionality, namely adopting a regulatory framework based on the nature of the business conducted, the type of services performed, the complexity of operations and the size of the company and the Group;
- integration, that is, finding mechanisms that coordinate and harmonize the actions of the various actors in the internal control system, using methodologies that provide top management with comprehensive, usable information generated by an integrated assessment process enabling a unified vision for making information decisions;
- cost effectiveness, in the sense of the search for an appropriate trade-off between the overall cost of control and effective management of risks;
- evolution, namely the on-going search for mechanisms to improve the structure, effectiveness and efficiency of the internal control system.

The following fall within the scope of the Parent Company's duties:

- to provide the Group with a unified internal control system that enables effective internal control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members;
- to make all Group members aware of the importance of the ICS, including the contribution that all structures can make to improve its efficiency and effectiveness;
- determine the Group's risk profile through the definition of the Group RAF, ensuring the consistency of the latter with the operations, complexity and size of the Group and taking due account of the specific activities and associated risks of each company belonging to the Group;
- to implement systems for monitoring cash flows, lending and other interactions between Group members;
- to activate controls to meet IT security and business continuity targets for the entire Group and for each member;
- to continually monitor the different risk profiles contributed to the Group by each subsidiary and the Group's overall risks.

Group boards and committees operate within the internal control system and are primarily responsible, each according to its competencies, for ensuring that the internal control system is comprehensive, suitable, functional and reliable. Specifically:

- the Board of Directors of the Parent Company approves the risk management policies and structure of the corporate and Group ICS, ensuring that it is compliant with the organizational principles established by supervisory instructions on an ongoing basis, consistent with the Group strategy and RAF and effective in identifying developments in corporate risks and connections among them;
- the Parent Company's Executive Committee – as well as the boards of directors of the subsidiaries – oversee the implementation of strategic policies, the RAF and the risk governance policies, and take all the necessary steps to ensure that the organization and the ICS comply with current standards and regulatory requirements;
- the Risk Committee assists, in its role as advisory body, the Parent Company's Board of Directors in performing its ICS duties and, in particular, in assessing the ICS's effectiveness and suitability;
- the boards of auditors of the Parent Company and of the subsidiaries monitor compliance with the laws, regulations and bylaws, sound management, the suitability of the organizational and accounting structures of the Company and the Group, in close collaboration with the Corporate Control Functions;



- the top management of the Group companies takes the steps needed to ensure that the internal control system remains efficient and effective commensurate with the risks associated with business operations, in line with the individual companies' internal regulations and procedures.

The Corporate Control Functions (CCFs) are autonomous and independent structures ensure the proper and efficient functioning of the ICS. The organizational structures that are CCFs are the following:

- the second-level risk management function, which is responsible for controls on risk management activities;
- the second-level compliance and anti-money laundering function, which is responsible for controls on compliance with applicable legislation and combatting money laundering and the financing of terrorism;
- the third-level internal audit function, which is responsible for controls that involve assessing the completeness, suitability, functionality and reliability of the organizational structure and the other components of the internal control system;

Also involved in monitoring the effective performance of operations are all the operational and business structures of the Parent Company and the subsidiaries, through the controls conducted in the course of the corporate processes in which they are involved (e.g. hierarchical, systematic and sampling controls) or through units whose sole function is to perform controls and report to the heads of the operational areas, or that perform them in the context of back-office functions.

The Parent Company establishes, by issuing regulations, the standards, criteria and primary responsibilities of the CCFs, defining the relationships between them and the corporate boards.

The subsidiaries, in accordance with the organizational and governance guidelines provided by the Parent Company, establish the CCFs and issue the relative internal regulations. Subsidiaries that are not banks or financial companies, while not subject to the supervisory regulations on internal controls, must still appoint a contact person with whom the heads of the Parent Company CCFs can coordinate in implementing the Group's integrated ICS.

The CCFs of the Group companies are autonomous and independent. With regard to second- and third-levels, the CCFs of the Parent Company and the subsidiaries report directly to the boards of directors.

To ensure smooth interaction among all the CCFs and between them and the corporate boards, a series of coordination and collaboration mechanisms (in addition to those called for under internal regulations) has been established to maximize synergies and avoid overlap, redundancies or shortcomings in the system. Coordination and interaction between the CCFs occurs in the following phases:

- planning, carried out on the basis of a thorough analysis that takes into account changes in operations, the market and regulations, as well as related organizational, process and product changes, revolving around an assessment of the risks identified and the results of the audits carried out. This analysis, together with mandatory control provisions set out in the applicable regulations (or requested by the competent bodies) guides the annual planning process;
- execution of controls at different levels (second and third);
- reporting, a formal summary of activities conducted and their results based on the information needs of the various audiences, in particular the corporate boards, taking account of the complexity and depth of the activity conducted and finding a balance between the need for timely information and providing comprehensive information for the decision-making process that utilizes it. Within their area of responsibility, the control bodies report on the completeness, appropriateness, functionality and reliability of the internal control system, notify promptly the corporate boards of any violations or shortcomings they may find, develop specific recommendations for resolving issues with the system and identify solutions for the fine-tuning and corrective or evolutionary maintenance of the framework for assuming and managing risks to be submitted to the appropriate corporate bodies for approval;
- follow-up (monitoring and/or support) of adjustments and or mitigating actions, meaning once the CCFs complete their work by making adjustments or undertaking mitigating actions, monitoring is done to check their actual and effective achievement or support is provided support, as far as it falls within the CCFs' duties, in implementing these measures. In their follow-up activities, the CCFs identify the nature, timing and manner in which the activities are implemented in relation to the significance of the issues that prompted

the corrective and mitigation actions, the complexity and effort – measured in terms of the time and cost necessary – involved in carrying them out and the potential impact of failure to address the issues.

The CCFs share among themselves, while respecting each's prerogatives, all information that can be used to improve the level of efficiency and effectiveness of the activities each undertakes, taking account of the strong inter-connections that exists between the different areas monitored.

## 11. OTHER SIGNIFICANT INFORMATION

### The Mutual Banking Group (MBG) Project

With the approval of Law 49/2016 in April 2016, the process of reforming the Italian mutual banking system began, with the definition of a new organizational structure aimed at ensuring greater integration among all of the mutual banks operating in Italy. This integration will allow the mutual banking system to respond effectively to new market environments and the regulatory developments associated with the entry into force of the Banking Union within the European Union.

This reform, therefore, represents a major change, one that will enable the Italian mutual banks to become part of a new and original organizational model, one that unites local culture and European scope. They will remain autonomous, mutual and local banks, but will be integrated within a more cohesive and efficient system. In fact, the reform does not deprive the banks of their identity but rather seeks to preserve the role of the mutual banks as local institutions with a predominantly mutualistic mission, and enable shareholders to participate in the social capital of the mutual banking system.

Under the new organizational model envisaged by the reform, each mutual bank will have to join a Mutual Banking Group as the primary condition for the issue of a banking license. The process of joining the Group is regulated by a specific cohesion contract that will govern the operation of the Group itself. In particular, with the signing of the cohesion contract, the affiliated mutual banks accept the management, coordination and control activities of the Parent Company, without prejudice to the respect for the mutualistic purposes that characterize the mutual banking system. At the same time, the Parent Company will assume the duties and responsibilities in respect of the affiliated banks connected with its role as the entity in charge of the strategic and operational management of the Group and contacts with the supervisory authorities.

In this context, the Iccrea Banking Group has proposed itself as the parent company of the future Iccrea-branded Mutual Banking Group (MBG), promoting the start of activities for the formal establishment of the new banking entity.

The integration process for new Mutual Banking Group required the future parent company and the member institutions to launch joint working groups through which they will define shared policies and identify common management, administration, control and reporting tools.

The participating banks are therefore engaged in a joint process of transposing the provisions of the decree, addressing the complexities generated by the need to combine different organizations with strong identities and diversified business activities.

At the end of December 2017, a constructive effort was begun with the supervisory authorities to present the activities performed and the implementation status of the project, with a view to presenting and agreeing the drafts documentation - cohesion contracts, guarantee agreement and parent company intervention arrangements, Group governance, bylaws, rules, etc. – that will be formally submitted in accordance with the deadlines established by applicable legislation.

The milestones of the project provide for the submission of the definitive application by May 2, 2018. Within 120 days, the supervisory authorities will have to respond with a formal assessment and, subsequently, will have to give a deadline for the Parent Company – of no more than 12 months, or 90 days in the case of first-time application of the rules - to complete the signing of the cohesion contract and adopt the related amendments of the articles of association by the Parent Company and the other participating banks.

### Inspections by the supervisory authorities

From April 5 to June 28, 2017, the ECB conducted an inspection concerning the “governance and management of financial risks” at the consolidated level. The inspection assessed the adequacy of the governance and control mechanisms for liquidity and funding risk, interest rate risk in the banking book and market risk, while also examining the accuracy and reliability of internal reporting and supervisory reporting for liquidity risk and IRRBB. In October and November 2017 the findings of the inspection report were discussed. The report noted that considering

the low level of exposure to financial risks and despite certain shortcomings, the organizational structure and the internal control system could be viewed positively and that senior management was aware of the findings and intended to address them in the context of the broader activities under way as part of the establishment of the Mutual Banking Group.

In addition, May 29 to September 6, 2017, the Bank of Italy conducted an inspection of the subsidiary BCC Risparmio & Previdenza. The inspection report was partially favorable, within the framework of the periodic prudential control process, in the light of the increasing levels of profitability and the strong capital base, despite the finding a need to strengthen the control of strategic risks and address certain weaknesses in the control system. In this regard, the company, in agreement with the Parent Company, conducted a closer analysis of the situation and identified the most appropriate initiatives to resolve the issues noted in the report and, in particular, strengthen arrangements for communication with the appropriate internal control structures of the Parent Company, responding formally to the Bank of Italy in early 2018 with a specific adjustment plan.

Finally, between November and December 2017, the Bank of Italy conducted a thematic inspection of the subsidiary BCC Credito Consumo S.p.A. on consumer protection issues. Discussions with the inspection team appear to indicate that no adverse findings should emerge. The inspection report should in any case be issued shortly.

### SREP decision

On November 28, 2017, the European Central Bank sent Iccrea Banca S.p.A. its final decision establishing the prudential requirements for 2018 (broken down into requirements for own funds and qualitative requirements).

The decision was based on the supervisory review and assessment conducted in accordance with Article 4, paragraph 1(f) of Regulation (EU) no. 1024/2013 as at December 31, 2016, taking due account of information received subsequently and the results of the supervisory stress tests conducted in 2016, supplemented by the analysis of sensitivity to interest rate risk in the banking book - stress tests conducted by the ECB in 2017.

In this decision, the ECB requires Iccrea Banca to maintain, on a consolidated basis, a total SREP capital ratio (TSCR) of 9.75% (a slight increase from 9.50% the previous year), including the requirement for own funds under the CRR (8%). In addition, it specified that Iccrea Banca is also subject to the overall capital requirement (OCR), which, in addition to the TSCR, includes the combined capital buffer requirement.

In qualitative terms, the SREP decision also requires Iccrea Banca to continue providing additional information on a quarterly basis concerning its non-performing exposures (NPEs) and to present a strategic plan to deal with NPEs and the related semi-annual monitoring.

### Investments

During the course of 2017 the Parent Company continued to invest in the individual business segments.

More specifically, following the progressive introduction of the new capital conservation buffer requirements and in consideration of the development plan of Iccrea BancalImpresa, with the foreseeable evolution of lending, in March 2017 the Parent Company made a non-interest bearing and non-repeatable payment for a future capital increase of €60 million to the subsidiary.

Moreover, in a changing market environment characterized by rapid competitive, technological and regulatory developments, and to support the mutual banks in their transformation, innovation and digitization, Iccrea Banca continued to invest in its Ventis subsidiary. The latter is a platform for leveraging the information resources of the Iccrea Banking Group/mutual banks in order to provide turnkey integrated digitization and commercial visibility/promotion services to the SMEs that borrow from the mutual banks. In line with the Group's strategic plan, in April 2017 Iccrea Banca approved an investment of €2 million in Ventis in order to strengthen the subsidiary and ensure it has the resources it needs to pursue its strategic objectives.

Again in April 2017, and consistent with the three-year development plan of BCC Credito Consumo presented to the Bank of Italy following registration in the Single Register of Financial Intermediaries, in the light of the growth forecasts for that company, the Bank subscribed a capital increase of €5 million in the subsidiary.

In May 2017, in view of the current and future performance of the associate Car Server and with the aim of positively impacting the performance and financial position of Iccrea BancalImpresa, Iccrea Banca authorized the latter

to subscribe a capital increase by Car Server. This also avoided any dilution of its stake in the associate following its capital increase of €12.6 million.

Iccrea Banca participated in the capital increase of Satispay, completed in August 2017, with an investment of €3 million, bringing its interest to 15.72% and modifying the related shareholder agreements. The price of the new shares subscribed was €18 million. The valuation of the company after the capital increase amounted to around €66 million. With this transaction, Iccrea Banca has specific rights, including the appointment of a director, continuing to support the company, which offers complementary services to the traditional products offered by Iccrea and the mutual banks.

At the end of December 2017 a framework agreement was signed between the Iccrea Group, the Region of Friuli Venezia Giulia and the Fondazione CR di Trieste for the Iccrea Group to acquire a majority of the shares (51.5%) of MedioCredito Friuli Venezia Giulia (MCFVG), through:

- the acquisition by Iccrea Banca of Fondazione CR's investment in MCFVG for approximately €21 million, to be implemented with the transfer to the Foundation of Iccrea Banca treasury shares at the withdrawal value determined on the occasion of the merger of Iccrea Holding into Iccrea Banca;
- the subscription by Iccrea Bancalmpresa of a reserved capital increase by MCFVG of about €19 million.

As this transaction is subject to prior supervisory authorization, a specific request was submitted to the supervisory authorities in January 2018.

### **Iccrea Banking Group IFRS 9 Project**

In 2017, the Iccrea Banking Group conducted activities to implement the new IFRS 9, following a preliminary impact assessment carried out in 2014 to estimate the potential impacts of adopting the standard.

The project was structured into three macro-areas, which followed the three areas into which the principle is organized, namely Classification and Measurement, Impairment and Hedge Accounting. The structure of the governance of the project comprised a Steering Committee composed of members of senior management and a Group operating manager for each of the macro-areas. The implementation of the new accounting standard involved not only the Administration and Risk Management units, who were main players, but all the Group's structures.

The working group reported periodically to the Board of Directors of the Parent Company on the progress of the project, and presented the methodological choices adopted, the implementation measures and the simulations of the impact of the new standard to the Board of Auditors, the internal control units and the audit firm. The European Central Bank conducted a thematic review of the Group, like other European groups, to assess progress in the adoption of this new international accounting standard. The initial findings presented by the ECB during a meeting indicated that the implementation of IFRS 9 by the Group appeared to be fairly consistent with the expectations of the supervisory authorities, albeit with room for improvement. At the date of this report, formal notification of the findings of the analysis from the ECB is still pending.

With regard to the IFRS 9 Hedge Accounting macro-area, it was decided to postpone the adoption of the new approach until after January 1, 2018.

In addition, the scope of the project was extended to include the mutual banks involved in establishing the Mutual Banking Group.

Further details on the project are provided in the notes to the financial statements.

## T-LTRO II

On March 10, 2016 the Governing Council of the European Central Bank (ECB) approved a new series of targeted longer-term refinancing operations (T-LTRO II) to be carried out through four quarterly tenders starting June 30, 2016. As with the first operation (T-LTRO I) Iccrea Banca (as lead institution) formed the T-LTRO II Group, composed of 143 banks and the Iccrea Banking Group banks.

In the final tender held in March 2017 the Group used its remaining borrowing allowance of €8.9 billion, thereby utilizing its maximum allowance of €13.9 billion. Of this, around €10.1 billion was requested by and made available to the mutual banks and other banks participating in T-LTRO II.

In the second half of 2017, with the expiry of the operation approaching, the Bank monitored the performance of the group on a monthly basis. The monitoring found that planned objective was effectively achieved. Accordingly, the Group recognized the share of interest due.

### Revision of the investment strategy

At the end of 2017, in response to market and regulatory developments, it was decided to liquidate the tactical portfolio composed of government securities, classified as assets held to maturity (HTM), of the three Group banks. Accordingly approximately €5 billion in securities were sold, with the realization of a gain of about €72 million on the sale.

The sales involved the entire HTM portfolio of the Group and, consequently, no residual amounts were reclassified in the AFS category.

### Fondo Atlante

During 2016 Iccrea Banca, examined and formalized a binding commitment to acquire units in the Fondo Atlante in the maximum amount of €40 million. The €32.3 million of funds called up in 2016 were followed by further calls of about €4.4 million in 2017.

The investment experienced a significant reduction between 2016 and 2017 due to the liquidation of Banca Popolare di Vicenza and Veneto Banca, which, following the widely reported events, prompted the asset management company (Quaestio Capital Management) to write off the values of those investments in the books of the Fondo Atlante. As a result, the carrying amount of Iccrea Banca's investment in Fondo Atlante has incurred an impairment loss totaling €32.2 million (81%), of which €9.7 million registered in 2016 and €22.5 million in 2017.

Following these writedowns, the carrying amount of the 40 units held by Iccrea Banca amounted to €4.5 million, with a prorated unit value of €0.113 million, compared with a NAV at December 31, 2017 of €0.123 million.

### Ratings

With regard to relations with rating agencies, the following developments occurred in 2017:

- on January 19, 2017 Fitch Ratings confirmed the long-term debt rating to "BBB-" and an "evolving" outlook;
- on October 31, 2017 Standard & Poor's confirmed the medium/long-term debt rating of "BB", with a "stable" outlook.

The section on events subsequent to the date of this report indicates that on January 19, 2018, Fitch Ratings lowered its the medium/long-term debt rating to "BB+" with a "stable" outlook.

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

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

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

The control system is based upon two primary guidelines.

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

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

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

### **Transactions with related parties**

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

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

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

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

In the section "Transactions with related parties" of the explanatory notes, a summary table reports related party transactions. During the year the Group did not engage in or hold any atypical and/or unusual transactions or positions.

Part H – Transactions with related parties in the notes 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 2017, 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.

### Research and development

The Group did not engage in any research and development in 2017.

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

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

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

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

Financial indicators:

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

Management indicators:

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



### Other indicators

- the entity has not experienced a reduction in equity to below legal limits or non-compliance with other provisions of law;
- the entity has no legal and tax disputes under way which, if lost, could give rise to obligations to pay indemnities that the entity would be unable to discharge;
- there have not been any changes in legislation or government policy that could have an adverse impact on the entity.

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

### **Treasury shares bought and sold during the year**

At December 31, 2016, the Bank held 569,464 shares with a value of €30,067,699.20, for which a special reserve (purchase of own shares) has been established. During the year, 14,758 shares were purchased for €779,223 euro. At December 31, 2017 treasury shares numbered 584,222 with a par value of €51.65, repurchased for €52.80, with a total value of €30,846,921.66.

### **2017 Consolidated Non-Financial Statement**

With regard to the Non-Financial Statement referred to in Legislative Decree 254/2016, Iccrea Banca has prepared a Consolidated Non-Financial Statement pursuant to Article 4 of that decree.

The document is published together with the consolidated financial statements.

## 12. SUBSEQUENT EVENTS AND OUTLOOK

The main events that characterized the beginning of the 2018 financial year are shown below:

- following the entry into force of the new international accounting standard IFRS 9, the new Art. 473a of Regulation (EU) 575/2013, which introduced a transitional framework allowing, after exercising this option (so-called phase-in provisions), the dilution over five years of the impact on CET1 of the application of the new impairment model. Iccrea Banca, as the Parent Company, has opted to adopt the transitional framework at the Group level, with regard to both the static and the dynamic component. The quantitative impact estimates resulting from first-time adoption of the new accounting standard are reported in Part A of the notes to the financial statements;
- January 18, 2018, Fitch Ratings reduced its rating on the medium/long-term debt to "BB +" with a "Stable" outlook;
- with regard to the 2017 TLTRO II operations, on the basis of the results as at January 31, 2018, which are still under review by the auditors, the growth objective for eligible lending would be fully achieved, generating value for the participating banks of about €221 million;
- in the first quarter of 2018, following the phase-in of the capital conservation buffer requirement (increased to 1.875% from January 1, 2018), taking into account the development of investments in the corporate segment, the Parent Company authorized a further payment of €60 million for a future capital increase of the subsidiary Iccrea Bancalmpresa as well as the start of the authorization procedure for the transformation of payments made into share capital (€120 million) and the related amendments to the bylaws;
- with a view to improving the value of investments in the insurance sector, it was decided to acquire 871,500 Cattolica shares, with a value of €8 million, equal to about 0.50% of the company's share capital;
- in relation to the significant contributions paid in the last three years to the Resolution Fund - established with Directive 2014/59/EU (the BRRD) - in January 2018 Iccrea Banca filed an appeal with the Regional Administrative Court of Lazio and the European Court of Justice, arguing that the methods for calculating the contributions did not take into account the interconnections between the liabilities of Iccrea Banca and the mutual banks, with a consequent duplication of the calculation base. The appeal is pending.

Looking forward, in February 2018 the 2018-2020 business plan of the Iccrea Banking Group was approved. Pending approval of the Mutual Banking Group project, it is based on the following lines of development:

- focus the Parent Company and the Group companies on completing the activities necessary for the formation of the new Mutual Banking Group;
- development of the actions envisaged in the NPL plan (restructuring of unlikely-to-pay positions, liquidations, settlements, etc.) and disposals of non-performing loans;
- identification of incisive actions to offset the possible contraction in volumes linked to the mutual banks belonging to the CCB Group of Trento.

The 2018 budget includes the administrative costs necessary for the initial changes to strengthen the Parent Company's structures in the approach to creation of the Mutual Banking Group, while existing relations between participating mutual banks and the federations are being assessed. Despite an increase in operating expenses, the pre-tax result of the Iccrea Banking Group, as estimated for 2018 and taking account of the strategy to reduce the gross NPL ratio, will nevertheless be positive.

### 13. PROPOSED ALLOCATION OF PROFIT

Dear Shareholders,

We invite you to approve the financial statements for the year ended December 31, 2017, accompanied by the report on operations and the report of the board of auditors, as audited by Ernst & Young SpA.

Based on the supervisory authority's recommendations on a prudent dividend distribution policy, we propose that the profit for the year, totaling €4,751,176, be distributed as follows:

- €475,117.60 to the legal reserve;
- €276,058.40 distributable to the Board of Directors for charitable use;
- €4,000,000 to the extraordinary reserve.

## 14. CONCLUSIONS

In concluding this report the Board of Directors would like to acknowledge all those who, in different ways, have support the actions of the Bank and the Group, with renewed confidence and participation. First, we would like to thank our shareholders and customers, who have stood by us during this especially challenging year, encouraging use in pursuit of our duties under the bylaws and the innovative objectives set by primary and secondary legislation in connection with the creation of the Mutual Banking Group.

We would like express our gratitude to all those who, in their respective roles – directors, auditors, employees – have demonstrated their commitment to all the Group companies, contributing to the creation of a unified business model. A special thanks in this difficult year goes to all Group employees and their colleagues in the mutual banking industry, who were asked to make an extraordinary effort in managing ordinary operations at the same time as they were engaged in the activities of creating the new group.

We also express our thanks to the supervisory authorities, the ECB and the Bank of Italy, with whom our relationship has always been productive and the source of valuable recommendations for our management.

We have laid the foundations of the new Mutual Banking Group. This year will be devoted to operational development activities, which will require everyone involved with the new banking institution to play an active role.

A heartfelt thanks goes to the mutual banks that, aware of the difficulties the complexities of the project are causing them, are nevertheless supporting us in our effort to make the group one of the leading Italian banking groups: the country's number one local bank.

Rome - April 6, 2018

THE BOARD OF DIRECTORS

# FINANCIAL STATEMENTS

2017



## BALANCE SHEET

<b>ASSETS</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10. Cash and cash equivalents	98,307,123	98,423,950
20. Financial assets held for trading	316,785,483	420,177,927
30. Financial assets at fair value through profit or loss	15,630,450	14,558,805
40. Financial assets available for sale	3,498,964,842	5,650,669,289
50. Financial assets held to maturity	-	1,600,389,734
60. Due from banks	24,560,756,495	30,999,441,676
70. Loans to customers	5,985,237,479	4,181,848,448
80. Hedging derivatives	6,715,965	15,325,730
90. Value adjustments of financial assets hedged generically (+/-)	4,622	(348,377)
100. Equity investments	1,193,546,842	1,139,962,602
110. Property and equipment	14,430,380	12,567,457
120. Intangible assets	11,126,402	5,681,878
130. Tax assets	67,088,858	69,899,091
a) current	42,466,387	39,468,187
b) deferred	24,622,471	30,430,904
<i>of which Law 214/2011</i>	<i>2,718,718</i>	<i>2,968,715</i>
150. Other assets	249,519,497	186,967,310
<b>TOTAL ASSETS</b>	<b>36,018,114,437</b>	<b>44,395,565,520</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10. Due to banks	19,401,519,522	13,265,098,886
20. Due to customers	8,243,380,096	24,444,622,415
30. Securities issued	5,874,244,702	4,207,516,587
40. Financial liabilities held for trading	365,383,905	422,615,890
60. Hedging derivatives	48,028,289	51,814,840
80. Tax liabilities	2,772,768	1,966,154
b) deferred	2,772,768	1,966,154
100. Other liabilities	466,596,078	371,378,874
110. Employee termination benefits	11,312,466	12,262,953
120. Provisions for risks and charges:	7,152,344	12,445,798
b) other provisions	7,152,344	12,445,798
130. Valuation reserves	66,833,949	67,248,992
160. Reserves	401,193,923	391,785,505
170. Share premium reserve	4,746,737	4,746,737
180. Share capital	1,151,045,404	1,151,045,404
190. Treasury shares (-)	(30,846,922)	(30,067,699)
200. Net profit (loss) for the period (+/-)	4,751,176	21,084,184
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>36,018,114,437</b>	<b>44,395,565,520</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
10. Interest and similar income	237,107,837	232,349,684
20. Interest and similar expense	(199,526,336)	(182,127,452)
<b>30. Net interest income</b>	<b>37,581,501</b>	<b>50,222,232</b>
40. Fee and commission income	386,637,516	364,277,625
50. Fee and commission expense	(251,700,493)	(236,805,464)
<b>60. Net fee and commission income (expense)</b>	<b>134,937,023</b>	<b>127,472,161</b>
70. Dividends and similar income	25,240,699	22,777,687
80. Net gain (loss) on trading activities	15,536,793	15,983,680
90. Net gain (loss) on hedging activities	(1,395,013)	1,572,880
100. Net gain (loss) on the disposal or repurchase of:	85,798,175	78,139,983
a) loans	9,612	60,520
b) financial assets available for sale	31,543,577	81,750,457
c) financial liabilities held to maturity	56,081,465	-
d) financial liabilities	(1,836,479)	(3,670,994)
110. Net gain (loss) on financial assets and liabilities designated as at fair value	1,071,645	1,099,167
<b>120. Gross income</b>	<b>298,770,823</b>	<b>297,267,790</b>
130. Net losses/recoveries on impairment:	(49,550,393)	(17,104,713)
a) loans	(5,625,113)	4,650,547
b) financial assets available for sale	(42,056,409)	(19,133,210)
d) other financial transactions	(1,868,871)	(2,622,050)
<b>140. Net income (loss) from financial operations</b>	<b>249,220,430</b>	<b>280,163,077</b>
150. Administrative expenses:	(272,447,812)	(303,881,672)
a) personnel expenses	(79,620,925)	(92,586,543)
b) other administrative expenses	(192,826,887)	(211,295,129)
160. Net provisions for risks and charges	3,036,113	7,146,629
170. Net adjustments of property and equipment	(3,829,214)	(2,992,466)
180. Net adjustments of intangible assets	(5,131,198)	(5,658,354)
190. Other operating expenses/income	28,363,797	29,393,452
<b>200. Operating expenses</b>	<b>(250,008,314)</b>	<b>(275,992,411)</b>
210. Profit (loss) from equity investments	(3,082,445)	(1,959,674)
<b>250. Profit (loss) before tax on continuing operations</b>	<b>(3,870,329)</b>	<b>2,210,992</b>
260. Income tax expense from continuing operations	8,621,505	18,873,192
<b>270. Profit (loss) after tax on continuing operations</b>	<b>4,751,176</b>	<b>21,084,184</b>
<b>290. Net profit (loss) for the period</b>	<b>4,751,176</b>	<b>21,084,184</b>



## STATEMENT OF COMPREHENSIVE INCOME

	31/12/2017	31/12/2016
<b>10. Net profit (loss) for the period</b>	<b>4,751,176</b>	<b>21,084,184</b>
<b>Other comprehensive income net of taxes not recyclable to income statement</b>		
40. Defined-benefit plans	9,982	(449,657)
<b>Other comprehensive income net of taxes recyclable to income statement</b>		
90. Cash flow hedges	1,326,103	(1,574,098)
100. Financial assets available for sale	(1,751,129)	(31,415,781)
<b>130. Total other comprehensive income net of taxes</b>	<b>(415,043)</b>	<b>(33,439,536)</b>
<b>140. Comprehensive income (Item 10+130)</b>	<b>4,336,133</b>	<b>(12,355,352)</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2017

	AS AT 31/12/2016	CHANGE IN OPENING BALANCE	AS AT 1/1/2017	CHANGES IN THE PERIOD							SHAREHOLDERS' EQUITY AS AT 31/12/2017			
				ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD		EQUITY TRANSACTIONS						COMPREHENSIVE INCOME AT 31/12/2017		
				RESERVES	DIVIDENDS AND OTHER ALLOCATION	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURYSHARES		STOCK OPTIONS	
Share capital:														
a) ordinary shares	1,151,045,404	-	1,151,045,404	-	-	-	-	-	-	-	-	-	-	1,151,045,404
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	4,746,737	-	4,746,737	-	-	-	-	-	-	-	-	-	-	4,746,737
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) earnings	389,783,141	-	389,783,141	9,408,418	-	-	-	-	-	-	-	-	-	399,191,559
b) other	2,002,364	-	2,002,364	-	-	-	-	-	-	-	-	-	-	2,002,364
Valuation reserves	67,248,992	-	67,248,992	-	-	-	-	-	-	-	-	-	(415,043)	66,833,949
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(30,067,699)	-	(30,067,699)	-	-	-	-	(779,223)	-	-	-	-	-	(30,846,922)
<b>Net profit (loss) for the year</b>	<b>21,084,184</b>	<b>-</b>	<b>21,084,184</b>	<b>(9,408,418)</b>	<b>(11,675,766)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,751,176</b>	<b>4,751,176</b>
<b>Total shareholders' equity</b>	<b>1,605,843,123</b>	<b>-</b>	<b>1,605,843,123</b>	<b>-</b>	<b>(11,675,766)</b>	<b>-</b>	<b>(779,223)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,336,133</b>	<b>1,597,724,267</b>

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

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2016

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

"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 BCC Beni Immobili s.r.l. and the transfer of the "branch services" business unit to Banca Sviluppo.

"Changes in opening balance" reports the reverse merger of Iccrea Holding into Iccrea Banca. The amount reported reflects the difference between the cancellation of the equity of Iccrea Banca held entirely by the former Parent Company, Iccrea Holding, and the allocation of the merger surplus following the reverse merger in 2016.

## STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2017	31/12/2016
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>47,165,299</b>	<b>5,847,302</b>
- net profit (loss) for the period (+/-)	4,751,176	21,084,184
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	9,495,237	(26,170)
- gains (losses) on hedging activities (-/+)	1,395,013	(1,572,880)
- net losses/recoveries on impairment (+/-)	50,628,392	21,038,749
- net adjustments of property and equipment and intangible assets(+/-)	8,960,412	8,650,820
- net provisions for risks and charges and other costs/revenues (+/-)	5,001,950	8,388,234
- taxes, duties and tax credits to be settled (+/-)	(9,153,833)	(740,297)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-
- other adjustments (+/-)	(23,913,048)	(50,975,337)
<b>2. Net cash flows from/used in financial assets</b>	<b>6,825,262,703</b>	<b>2,127,579,831</b>
- financial assets held for trading	92,970,611	(12,884,276)
- financial assets at fair value through profit or loss	-	321,784,046
- financial assets available for sale	2,156,191,675	1,063,867,144
- due from banks: repayable on demand	(846,344,879)	(68,789,789)
- due from banks: other	7,282,932,715	991,393,915
- loans to customers	(1,811,523,896)	(104,061,515)
- other assets	(48,963,523)	(63,729,694)
<b>3. Net cash flows from/used in financial liabilities</b>	<b>(8,368,858,935)</b>	<b>(2,270,867,231)</b>
- due to banks: repayable on demand	(63,699,980)	(338,896,712)
- due to banks: other	6,200,120,616	(48,866,031)
- due to customers	(16,199,083,435)	(1,312,799,416)
- securities issued	1,661,834,519	(162,353,033)
- financial liabilities held for trading	(56,656,251)	(54,277,141)
- financial liabilities at fair value through profit or loss	-	(432,027,552)
- other liabilities	88,625,596	78,352,654
<b>Net cash flows from/used in operating activities (A)</b>	<b>(1,496,430,934)</b>	<b>(137,440,098)</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows from</b>	<b>860,507,759</b>	<b>858,161,140</b>
- sales of equity investments	-	-
- dividends on equity investments	23,189,759	20,843,140
- sales of financial assets held to maturity	837,318,000	837,318,000
- sales of property and equipment	-	-
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	-
<b>2. Cash flows used in</b>	<b>648,261,336</b>	<b>(668,700,176)</b>
- purchases of equity investments	(56,666,685)	(26,796,262)
- purchases of financial assets held to maturity	721,195,880	(632,068,428)
- purchases of property and equipment	(5,692,137)	(7,493,449)
- purchases of intangible assets	(10,575,722)	(2,342,037)
- purchases of subsidiaries and business units	-	-
<b>Net cash flows from/used in investing activities (B)</b>	<b>1,508,769,095</b>	<b>189,460,964</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of own shares	(779,223)	(29,624,801)
- issues/purchases of equity instruments	-	-
- dividend distribution and other	(11,675,766)	(15,018,247)
<b>Net cash flows from/used in financing activities C(+/-)</b>	<b>(12,454,989)</b>	<b>(44,643,048)</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C</b>	<b>(116,827)</b>	<b>7,377,818</b>

**RECONCILIATION**

	<b>31/12/2017</b>	<b>31/12/2016</b>
Cash and cash equivalents at beginning of period (E)	98,423,950	91,046,132
Net increase/decrease in cash and cash equivalents (D)	(116,827)	7,377,818
Cash and cash equivalents: net foreign exchange difference (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	98,307,123	98,423,950



## **PART A**

### Accounting policies





## A.1 – GENERAL INFORMATION

This section sets out the accounting policies adopted in preparing the financial statements at December 31, 2017. The presentation of the accounting policies – which are agreed at the Group level - is broken down into the stages of classification, recognition, measurement and derecognition for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

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

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

These financial statements at December 31, 2016 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 – 4th update of December 15, 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005 and Article 43 of Legislative Decree 136/2015.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the financial statements were those in force at December 31, 2017 as endorsed by the European Commission (including the interpretations issued by the SIC and the IFRIC).

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	<p><b>IFRS 15 Revenue from contracts with customers.</b> The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.</p>	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
2067/2016	<p><b>FRS 9 Financial instruments</b> The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.</p>	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
1989/2017	<p><b>Amendments to IAS 12 Income taxes – Recognition of deferred tax assets for unrealized losses</b> The amendments clarify how to account for deferred tax assets in respect of debt instruments measured at fair value.</p>	Annual reporting periods beginning on January 1, 2017.
1990/2017	<p><b>Amendments to IAS 7 Statement of cash flows – Disclosure initiative</b> The clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.</p>	Annual reporting periods beginning on or after January 1, 2017.
182/2018	<p><b>Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IFRS 12</b> The objective of the annual improvements is to clarify the scope of the disclosures provided for in IFRS 12 – Disclosure of interests in other entities.</p>	Annual reporting periods beginning on or after January 1, 2017

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	<b>IFRS 16 Leases</b> The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.
1988/2017	<b>Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</b> The amendments of IFRS 4 seek to remedy the temporary accounting effects of the mismatch between the effective date of IFRS 9 and the effective date of the new IFRS 17 on insurance contracts, which replaces IFRS 4 ..	Annual reporting periods beginning on or after January 1, 2018..
182/2018	<b>Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IAS 28 and IFRS 1</b> The amendments regarded the elimination of the short-term exemptions envisaged for First-Time Adoption of IFRS1, and the classification and measurement of equity investments measured at fair value through profit or loss in accordance with IAS 28 – Investments in associates and joint ventures.	Annual reporting periods beginning on or after January 1, 2018..
289/2018	<b>Amendments to IFRS 2 Share-based payment</b> The amendments are intended to clarify the accounting treatment for certain types of share-based payment schemes.	Annual reporting periods beginning on or after January 1, 2018.
400/2018	<b>Amendments to IAS 40 Investment property – Transfers of investment property</b> The amendments clarify when an entity may modify the classification of a property when it was not held as “investment property” and vice-versa.	Annual reporting periods beginning on or after January 1, 2018..
498/2018	<b>Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation</b> The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied.	Annual reporting periods beginning on or after January 1, 2019.
519/2018	<b>IFRIC 22 – Foreign currency transactions and advance consideration</b> The interpretation clarifies the accounting treatment for transactions that involve the receipt or payment of advance consideration in a foreign currency.	Annual reporting periods beginning on or after January 1, 2018.
To be determined	<b>IFRS 17 Insurance contracts</b> The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.
To be determined	<b>IFRIC 23 – Accounting for uncertainties in income taxes</b> The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	<b>Amendments to IAS28</b> The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	<b>Amendments to IAS 19</b> The amendments specifies how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019
To be determined	<b>Annual improvements to IFRS Standards 2015-2017 cycle</b> The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019

## Compliance with IFRS 9

With regard to the new accounting standard IFRS 9 “Financial instruments”, which entered force on January 1, 2018, endorsed with Regulation (EU) 2067/2016, replacing IAS 39 “Financial instruments: recognition and measurement”, in compliance with the requirements of IAS 8, paragraphs 30 and 31, we provide the following information on the impact of the application of the new standard. Furthermore, although the recommendations of the European Securities and Markets Authority (Public statement on European common enforcement priorities for 2017 IFRS financial statements) are not strictly applicable, we have nevertheless provided information on the judgmental aspects of the introduction of the standard, such as the business model, the SPPI test (Solely Payments of Principal and Interests), SICR (Significant Increase in Credit Risk), the definition of default and analyses of the “forward-looking” component within ECL models.

### *THE REQUIREMENTS OF IFRS 9*

The entry into force of IFRS 9 will bring changes, which can be summarized in the following three main areas:

- classification and measurement - the standard introduces new accounting classifications depending on the business models and the financial characteristics of cash flows (so-called SPPI - Solely Payments of Principal and Interests);
- impairment - the standard introduces a new expected credit loss approach (ECL) to replace the incurred loss approach envisaged under IAS 39, providing for the adoption of a single model encompassing all financial assets except those measured at the fair value through profit or loss (FVTPL);
- hedge accounting - the standard introduces changes in the area of micro hedging, bringing hedge accounting into a risk management perspective, while macro hedging does not currently fall within the scope of IFRS 9.

With regard to “classification and measurement” aspects issues, IFRS 9 establishes three measurement criteria for financial assets:

- amortized cost (hereinafter also “AC”);
- fair value through other comprehensive income (hereinafter also “FVOCI”);
- fair value through profit or loss (hereinafter also “FVTPL”).

For financial assets represented by debt securities, the determination of the measurement criterion is depends both on the business model of the portfolio to which it belongs and to the characteristics of the contractual cash flows of the financial instrument.

Equity instruments are classified in the FVTPL category, with the exception of the irrevocable option to classify equity instruments not held for trading in the FVOCI category. In this case only dividends are recognized in profit or loss, while changes from measurement and gains or losses on disposal are recognized in other comprehensive income.

The obligation to separate embedded derivatives in financial liabilities has been retained. The full recognition of changes in fair value through profit or loss is required, for instruments other than derivatives, only for financial liabilities held for trading. In this area, IFRS 9 has maintained the approach already adopted in IAS 39.

With reference to impairment, the standard introduces a single model, based on the concept of expected loss extended to performing on- and off-balance-sheet assets that are not measured at FVTPL. IFRS 9 establishes that at each reporting date the loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The verification of the presence of a significant increase in credit risk is based on a stage allocation process which provides for the classification of financial assets into three stages, applying the calculation of the 12-month expected credit loss to stage 1; and the lifetime expected credit loss on the instrument to stages 2 and 3.

With reference to “hedge accounting”, the standard revises the rules for the designation of a hedging relationship and for verifying its effectiveness in order to ensure greater alignment between the accounting representation of

the hedges and the underlying management rationale, confirming the adoption of a more risk-management oriented approach. It is emphasized that the regulatory changes only concern “general hedge accounting”, for which the standard provides for the possibility of applying the rules set by the new standard rather than continuing to apply IAS 39 (the “Opt-in/Opt-out” option).

#### *THE IFRS 9 IMPLEMENTATION PROJECT ADOPTED BY THE ICCREA BANKING GROUP*

The Iccrea Banking Group began work for the adoption of the new IFRS 9 in September 2016, following a preliminary assessment carried out in 2014 aimed at obtaining an initial estimate of the potential impact of its introduction.

Given the importance of the project and the impact of the changes introduced by the new standard, the activities were governed by a Steering Committee composed of members of top management. The project was structured into three macro-areas mirroring the three areas into which the standard is organized, namely classification and measurement, impairment and hedge accounting. For each project area, an operational manager was appointed.

Since the standard has a considerable impact and impacts many aspects of corporate operations, a large number of the Group’s units have been actively involved in the project: the areas most affected by the implementation of the new standard were Administration, Risk Management, Lending, Finance, Organization and Projects, IT, ALM and Consulting and Planning and Management Control. Together with the operational units, internal control functions such as Internal Audit and the Board of Auditors were also part of the project.

The IFRS 9 project was programmed an extended period of time and was divided into macro-phases, which were generally conducted one after the other, such as:

- an initial stage of assessment and definition of preliminary choices;
- a second design and construct stage, with analysis of the implementation solutions for the macro-areas, determining the preferred choices, together with the design of the operating models;
- a third phase of development, implementation and testing of the procedures and applications adopted, together with activities aimed at ensuring the adjustment and consolidation of internal rules within the Group.

The Group periodically informed the audit firm of the methodological choices adopted in the course of the project and of the implementation framework.

In order to provide information on developments in the various components of the project, the plan activities were developed from the assessment phase through to completion of the implementation phase, so as to ensure the prompt availability of all the tools and resources necessary to allow the Group to adopt the standard with effect from January 1, 2018.

With regard to the “classification and measurement” project, in the assessment phase detailed analyses were conducted of the Group’s loans and securities portfolios, the functional requirements for the SPPI test were analyzed, in order to illustrate the underlying assumptions and provide support for the relevant decisions in this area and the main organizational impacts were delineated.

In the design and construct phase, following the definition of the previous phase, the business models were defined for each Group company, the analysis of the operating scenarios was developed to identify the main organizational, process and technological impacts necessary to start the implementation construction phase. The project results were developed into specific policy documents and processes to govern the transition to the new standard. During the implementation phase, all the necessary measures were developed and implemented, while policies and internal process adjustments were refined and incorporated in the Group’s internal rules, enabling the necessary changes in compliance with the standard.

With regard to the “impairment” project, during the assessment phase the analysis of the systems used to measure the risk parameters for the calculation of the provisions and the mapping of the regulatory requirements was carried out. In the design and construct phase the activities focused on the methodological and organizational design of the transition. In particular, on the methodological front the solutions for calculating impairment were developed on the basis of the specific characteristics of each Group company, with particular reference to stage allocation and estimation of risk parameters, while on the technological front, application solutions were developed to enable the implementation of the methodological and functional inputs developed within the project and the calculation of the necessary provisions in compliance with the standard, in accordance with the

operational implementation of that standard by the Group. The project results were incorporated in specific policy documents and processes aimed at governing the transition to the new standard. During the implementation phase, all the necessary measures were developed and implemented, while policies and internal process adjustments were refined and incorporated in the Group's internal rules, enabling the necessary changes in compliance with the standard.

With regard to the "hedge accounting" project, the Group conducted an impact analysis of the requirements of IFRS 9, analyzing both the Group's existing hedging relationships and the "effectiveness testing" service provided to the participating mutual banks, conducting an analysis of the pros and cons of the adopting the IFRS 9 general hedge accounting model. In light of the results of the analyses conducted during the project, the Iccrea Banking Group has decided to postpone the adoption of the new IFRS 9 hedge accounting model until after January 1, 2018. Accordingly, there are no impacts related to this component.

With reference to information systems, the areas of greatest impact were identified with the implementation of special gap analysis activities, identifying all the necessary changes to be made and identifying the applications and procedures to be adjusted. In particular, with regard to the implementation of IT systems, we proceeded to upgrade the new software applications necessary for managing the new classification and measurement processes related to the business model and the SPPI test, together with the tools and applications needed to calculate the expected loss and inclusion of forward-looking factors in the definition of impairment. With particular reference to the SPPI test, the procedures to perform the test were identified, as were the platforms on which the SPPI methodology adopted by the Group would be applied, both for debt securities and for credit exposures in the strict sense. With particular regard to the determination of ECL, the implementation activities associated with estimating expected losses were completed with the adoption of solutions and applications managed by leading system operators.

In 2017 the Group underwent the thematic analysis conducted by the Single Supervisory Mechanism (SSM) of credit institutions (the "thematic review"), in order to assess the state of preparation for the application of IFRS 9. In this context, the Group provided documentation and analyses demonstrating the Group's analysis and assessments of IFRS 9 project areas. All the progress made on the project, together with the initial impact assessments, were discussed and shared with the European Central Bank during the course of the project. This activity will continue during 2018.

#### *DISCLOSURES ON THE IMPACT OF THE APPLICATION OF IFRS 9*

The following is a brief description of the main decisions, choices and activities carried out for each project area.

*Classification and measurement* - In order to comply with IFRS 9 – which introduces a model under which the classification of financial assets represented by debt securities is guided, on the one hand, by the management intent for which they are held (the business model) and, on the other, by the contractual characteristics of the instruments' cash flows (the SPPI test) – project activities were aimed at identifying the business model in use and that to be adopted, as well as establishing the procedures for conducting the SPPI test based on the characteristics of the contractual cash flows.

More specifically, with regard to business models, analyses were conducted to determine the business models of the financial instruments for each company of the Iccrea Banking Group, taking account not only of the current operations of the Group companies, but also the outlook for Group operations in the light of the forthcoming establishment of the Mutual Banking Group. Having taken account of the outlook for Iccrea Banking Group, business models were assigned to financial assets, as required under the standard, on the basis of the following drivers:

- portfolio granularity and level of definition of the business;
- identification of key management personnel;
- the nature of products and type of underlying asset;
- methods for assessing performance and how this is reported to key management personnel;
- the risks that affect the business model and how these risks are managed;
- how managers are compensated;
- sales.

The standard specifies three possible business models representing the entity's asset management objectives, namely:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty. For types of sale that were undertaken for other reasons, in line with the requirements of the standard, the Group has defined and regulated the types of permitted sales and the associated levels of significance, frequency and proximity to maturity, thresholds to analyze and monitor in order to consider possible sales consistent with a hold to collect business model.

As regards the business models identified in the Group, in general the current loan management approach is consistent with the hold to collect business model, while the management of finance portfolios is consistent with hold to collect and hold to collect and sell business models.

With regard to the SPPI test, the guidelines for the performance of the test that represent the method adopted by the Group have been defined and incorporated in company rules, offering guidance for the analysis of contractual provisions of instruments by all the units involved. In this context, it is useful to highlight how the approach adopted by the Group is differentiated on the basis of the nature of the financial assets, such as the loan book and the finance book. The evaluations conducted by the Group made it possible, for the loan book, to reflect these decision flows in the Group's IT application systems, which have therefore been duly implemented and integrated to enable users to perform SPPI testing, including the component connected with the benchmark test. With specific regard to benchmark testing, it is important to note that the Group has conducted specific analyses to define its own methodology, subsequently implemented in its application systems. The Group is now able to assess the significance of the modified time value of money deriving from the mismatch between the tenor and the refinancing of the interest rate and to assign the correct outcome of the benchmark test and, consequently, the SPPI test. In this regard, although credit products with that mismatch are common, the number of cases that do not pass the test is very small.

With specific regard to financial assets represented by finance securities, the implementation choice adopted by the Group was to supplement the information set contained in the securities registry, which is centrally managed by the Parent Company, with the results of the test provided by an infoprovider specialized in the financial sector, who has been working for some time with mutual banking system. This service, which has been configured on the basis of the specific choices and guidelines adopted by the Group with regard to SPPI testing, including, where necessary, the performance of the benchmark test, makes it possible to acquire a SPPI test result from the first sale evaluation by the finance professional. Given the current composition of the Group's finance portfolio and the contractual characteristics of the financial instruments in it, the impact of the SPPI test is not considered significant and the majority of the instruments comply with the criteria for measurement at amortized cost/FVOCI in accordance with IFRS 9.

Although the changes and the consequent impacts of the standard mainly refer to financial assets represented by debt, such as loans and the finance book, it is important to note that for equity instruments other than equity investments in associates or subsidiaries, IFRS 9 requires that such instruments be measured at fair value through profit or loss, with an option for the entity to make an irrevocable choice to report changes in fair value in other comprehensive income where the conditions envisaged in the standard are met. In this regard, the Group deemed it appropriate to exercise the OCI option for "instrumental" shareholdings (i.e. equity interests of a size below the

threshold that would qualify them as investments in associates) and for equity instruments issued by other mutual banks (for example, by mutual banks as part of rescue operations coordinated by the funds of the mutual banking industry). With regard to other equity investments that cannot be classified as investments in associates or subsidiaries, it was considered appropriate to use measurement at fair value through profit or loss.

As regards other instruments such as units in collective investment undertakings, policies and derivatives, the Group decided it was appropriate to use FVTPL as the measurement criterion, taking account of the negative result of the SPPI test for units in CIUs and policies, while for derivatives the approach is in line with the provisions of IAS 39.

Impairment - IFRS 9 requires that the Group, at each balance sheet date, assess whether the credit risk related to the individual financial instrument has increased significantly since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology developed by the Iccrea Banking Group for the individual Group companies for the loan and securities portfolio provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to the debt securities portfolio outstanding at the reporting date, the Group's methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

With regard to the loan portfolio, the methodology developed by the Group envisages:

- conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the Company, overcollateralized exposures and any specific exposures of the individual company;
- the use, where a rating system is available, of quantitative criteria based on the analysis and comparison of the PD at origination with the PD at the reporting date. If there is no origination PD and only the reporting date PD is available, the methodology provides for the use of the practical expedient of the low credit risk approach;
- the use of qualitative criteria, defined on the basis of the monitoring processes in place at the individual Group companies, to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use or not of quantitative criteria and can be summarized in: watchlist positions, positions with more than 30 days past due, forbore performing exposures and other specific criteria of the individual company.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;

- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
  - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
  - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, “satellite models” are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. Based on the estimates, the multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the “ordinary” scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.



In this regard, Iccrea Banca SpA – the future Parent Company of the emerging Mutual Banking Group – has established a structured operating process that provides for the involvement of a specialist desk (MBG - "NPL Reduction Project") established for the purpose of:

- providing support in the valuation of carrying amounts, considering sales scenarios in accordance with IFRS 9 of the individual potentially transferable positions, with the involvement of BCC Gestione Crediti;
- providing assistance with any accounting assessments, as well as in updating the plans to reduce NPLs already prepared at individual level, in the light of changes in conditions for their management, and in determining the consequent Board-level steps;
- supporting the companies of the existing Iccrea Banking Group and the mutual banks participating in the formation of the Mutual Banking Group in the analysis of the impact on their technical and financial situation.

As regards the prudential aspects, the initial impact of the different methods of determining impairment – i.e. the increase in writedowns measured at January 1, 2018 compared to those measured at December 31, 2017 deriving from the introduction, with IFRS 9, of new estimation methods compared with those envisaged by IAS 39 (first-time adoption) – falls within the scope of application of the prudential filter for CET1 defined by the European Parliament in December 2017 (Article 473a of Regulation (EU) No. 575/2013), the phase-in factors of which are shown below:

- a. 0.95 between January and December 2018;
- b. 0.85 between January and December 2019;
- c. 0.7 between January and December 2020;
- d. 0.5 between January and December 2021;
- e. 0.25 between January and December 2022.

The prudential regulations allow, in first-time adoption, any estimated losses on impaired loans to be treated using the phase-in mechanism. This is possible as long as the estimate of such losses is not strictly related to the forecasts for recovery of the loan over its lifetime through traditional "ordinary" actions (the so-called hold scenario), in which case the valuation must be carried out in accordance with the previous accounting standard.

The reduction in the stock of non-performing loans together with the application of IFRS 9 would make it possible, in the phase-in period established in European legislation, to:

- directly recognize the effects of losses in equity, which, considering the different recovery strategy, would also be estimated by considering sales scenarios instead of at their carrying amount as determined on the basis of the difference between expected cash flows and those contractually due (using the effective interest rate). This is in full compliance with the guidelines of the ITG;
- amortize the negative reserve that would be created over five years for capital purposes, with a smaller impact in the first two years due to the "non-linear" procedure defined by the regulator, therefore making it possible to plan appropriate capital management actions;
- foster a greater focus on the core business and at the same time meet the expectations of the supervisory authorities and the market regarding the achievement of an "acceptable" level for the NPL ratio;
- enhance the efficiency of the management of the highest quality non-performing positions – i.e. those for which the available information suggests are at lower risk of further significant writedowns looking forward, given the status of recovery/guarantee enforcement procedures - in order to maximize cure rates;
- increase the focus on the proactive management of unlikely-to-pay positions, on which the European supervisory authorities are reported to be focusing their attention in order to improve cure rates.

As regards the foregoing, the main quantitative impacts are essentially attributable to the application of the new impairment model, which will entail an increase in provisions due to the inclusion i) of lifetime expected losses on unimpaired assets classified in stage 2; ii) of the forecast macroeconomic scenarios for all credit categories; and iii) of the prospective sales scenarios for an identified portfolio of gross impaired loans that has been associated with a probability of sale in line with the NPL strategy.

On the basis of the available information, it is estimated that first-time adoption of IFRS 9 as of January 1, 2018, will have an impact on the fully loaded CET1 ratio generated by the application of the new impairment model to loans and debt securities, gross of tax effects, in a range of between 70 and 90 basis points.

The Banking Group has exercised the option to adopt the phase-in regime, in accordance with the aforementioned Regulation. Accordingly, in 2018 the Iccrea Banking Group may sterilize 95% of the negative impact on CET1 of the impairment on performing loans and debt securities and impaired positions.

### Compliance with IFRS 15

*IFRS 15 - Revenue from contracts with customers* applies to all contracts with customers with the exception of lease contracts, insurance contracts and financial instruments that fall within the scope of other specific international accounting standards.

The standard prescribes the rules for the recognition of revenue, introducing an approach that provides for their recognition when control over the promised goods or services is transferred to the customer and the recognition of revenue in an amount that reflects the consideration to which the company expects to be entitled in exchange for the goods or services.

IFRS 15 provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract with the customer;
- identification of the performance obligations;
- determination of the transaction price;
- allocation of the transaction price to performance obligations;
- recognition of revenue on the basis of satisfaction of the performance obligation (“at a point in time” or “over time”).

The standard also introduces new rules for recognizing costs incurred in obtaining and performing a contract, allowing them to be recognized as an asset if the entity expects to recover them with the execution of the contract.

The Iccrea Group has conducted a preliminary assessment of contracts with major customers using gap analysis with respect to the revenue recognition rules provided for in the old IAS 18 in order to identify the areas impacted by IFRS 15. The implementation of the standard is nearing completion, even before the publication of the guidelines that were issued by the Transition Resource Group for Revenue Recognition. Based on the analysis conducted so far and considering the nature of the main revenue items analyzed, the expected effects of the implementation of the standard on the balance sheet and income statement are not considered significant.

## Section 2: General preparation principles

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

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

The 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, 2016, while the income statement reports the comparative figures for the same period of the previous year.

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

#### *RISKS AND UNCERTAINTIES ASSOCIATED WITH THE USE OF ESTIMATES*

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

Estimation processes were used to support the value of some of the largest items recognized in the financial statements at December 31, 2017, as provided for by the accounting standards and applicable legislation referred to earlier.

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

The estimation process supported the carrying amounts recognized at December 31, 2017. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

The parameters and the other information used in verifying the carrying amounts were therefore substantially impacted by those factors, which could undergo rapid changes that cannot currently be 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*

Gli schemi dello Stato patrimoniale e del Conto economico sono costituiti da voci, sottovoci e da ulteriori dettagli informativi (i “di cui” delle voci e sottovoci). Non sono riportate le voci che non presentano importi né per l’esercizio al quale si riferisce il bilancio, né per quello precedente. Nel conto economico i ricavi sono indicati senza segno mentre i costi sono rappresentati in parentesi.

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

#### STATEMENT OF COMPREHENSIVE INCOME

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

#### STATEMENT OF CHANGES IN EQUITY

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

#### STATEMENT OF CASH FLOWS

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

#### NOTES TO THE FINANCIAL STATEMENTS

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

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

### Section 3: Events subsequent to the reporting date

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

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

### Section 4: Other information

#### CONSOLIDATED TAX MECHANISM OPTION

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

*OTHER ISSUES*

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

## A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

### 1 – Financial assets held for trading

#### *CLASSIFICATION*

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

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

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

#### *RECOGNITION*

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

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

#### *MEASUREMENT*

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

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

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

*DERECOGNITION*

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

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

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

*RECOGNITION OF INCOME COMPONENTS*

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

**2 – Financial assets available for sale***CLASSIFICATION*

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

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

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

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

*RECOGNITION*

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

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

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

*MEASUREMENT*

Following initial recognition, financial assets available for sale are measured at fair value, with the value corresponding to the amortized cost recognized in the income statement. Gains and losses from changes in the

fair value are recognized in a special equity reserve until the asset is derecognized or they incur an impairment loss. Upon disposal or the recognition of an impairment loss, the cumulative gain or loss recognized in the equity reserve is reversed to the income statement.

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

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

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

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

#### *IMPAIRMENT TESTING OF FINANCIAL ASSETS AVAILABLE FOR SALE*

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

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

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

#### *DERECOGNITION*

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

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

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

#### *RECOGNITION OF INCOME COMPONENTS*

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



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

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

### 3 – Financial assets held to maturity

#### *CLASSIFICATION*

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

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

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

#### *RECOGNITION*

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

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

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

#### *MEASUREMENT*

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

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

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

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

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

#### *DERECOGNITION*

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

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

continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

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

#### *RECOGNITION OF INCOME COMPONENTS*

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

## **4 – Loans and receivables**

#### *CLASSIFICATION*

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

#### *RECOGNITION*

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

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

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

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

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

#### *MEASUREMENT*

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

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

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

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

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

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

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

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

#### *DERECOGNITION*

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

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

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

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

#### *RECOGNITION OF INCOME COMPONENTS*

Following initial recognition, loans are measured at amortized cost, which equals the amount at which the assets are measured at initial recognition decreased by principal repayments, plus or minus the cumulative amortization

using the effective interest method of any difference between the initial amount and the maturity amount (usually attributable to costs and revenues directly attributable to the individual position) and plus or minus any writedowns/writebacks. The effective interest rate is the rate that exactly discounts the estimated future cash flows generated by the loan in respect of principal and interest to the amount disbursed including costs and revenues attributable to the loan. This accounting treatment makes it possible to distribute the economic impact of costs and revenues over the expected remaining life of the loan.

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

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

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

## 5 – Financial assets measured at fair value

### *CLASSIFICATION*

The item “Financial assets measured at fair value” 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 measured at fair value 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 the hedge is effective at the moment of inception and throughout its life.

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

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

Effectiveness is measured at every reporting date through:

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

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

#### *DERECOGNITION*

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

## **7 – Equity investments**

#### *CLASSIFICATION*

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

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

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

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

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

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

#### *RECOGNITION*

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

#### *MEASUREMENT*

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

#### *IMPAIRMENT TESTING OF EQUITY INVESTMENTS*

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

Impairment indicators are essentially divided into two categories:

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

#### *DERECOGNITION*

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

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

#### *RECOGNITION OF INCOME COMPONENTS*

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



## 8 – Property and equipment

### *CLASSIFICATION*

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

### *RECOGNITION*

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

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

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

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

### *MEASUREMENT*

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

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

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

### *DERECOGNITION*

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

### *RECOGNITION OF INCOME COMPONENTS*

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

## 9 – Intangible assets

### CLASSIFICATION

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

### RECOGNITION

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

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

### MEASUREMENT

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

### DERECOGNITION

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

### RECOGNITION OF INCOME COMPONENTS

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

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

### CLASSIFICATION

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

*RECOGNITION*

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

*MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

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

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

*DERECOGNITION*

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

**11 – Current and deferred taxation***CLASSIFICATION*

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

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

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

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

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

*RECOGNITION AND MEASUREMENT*

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

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

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

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

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

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

#### *RECOGNITION OF INCOME COMPONENTS*

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

## **12 – Provisions for risks and charges**

### **Other provisions for risks and charges**

#### *RECOGNITION AND CLASSIFICATION*

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

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

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

#### *MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

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

*DERECOGNITION*

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

**13 – Debt and securities issued***CLASSIFICATION*

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

*RECOGNITION*

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

*MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

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

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

**14 – Financial liabilities held for trading***CLASSIFICATION*

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

*RECOGNITION*

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

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

Derivative contracts embedded in other financial instruments or contracts and which have financial and risk characteristics that are not correlated with the host instrument or which meet the requirements to be classified themselves as derivative contracts, are recognized separately among financial liabilities held for trading if their

value is negative. This is not done in cases in which the compound instrument containing the derivative is measured at fair value through profit or loss.

#### *MEASUREMENT*

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

#### *DERECOGNITION*

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

#### *RECOGNITION OF INCOME COMPONENTS*

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

## **15 – Financial liabilities measured at fair value**

#### *CLASSIFICATION*

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

#### *RECOGNITION*

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

#### *MEASUREMENT*

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

#### *DERECOGNITION*

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

#### *RECOGNITION OF INCOME COMPONENTS*

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

## **16 – Foreign currency transactions**

#### *RECOGNITION*

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

*MEASUREMENT*

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

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

*RECOGNITION OF INCOME COMPONENTS*

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

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

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

**17 – Other information****Employee termination benefits**

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

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

Therefore, starting January 1, 2007, the Bank:

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

## Recognition of revenues

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

Specifically:

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

## Accruals and deferrals

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

## Costs for leasehold improvements

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

## Determination of fair value

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

### FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined on the basis of prices on financial markets in the case of instruments quoted on active markets and through the use of internal valuation techniques for other financial instruments. A financial instrument is considered to be quoted on an active market if the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorized agency,



regulatory authority or multilateral trading facility (MTF) and those prices represent actual and regularly occurring market transactions over a normal reference period.

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

Valuation techniques consider:

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

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

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

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

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

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

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

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

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

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

The most common valuation techniques used are:

- discounted cash flow models
- option pricing models.

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

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

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

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

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

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

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

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

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

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

- definition of the roles and responsibilities of the company bodies and functions involved;;
- classification of the financial instruments;

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

#### *NON-FINANCIAL INSTRUMENTS*

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

### **Determination of impairment**

#### *FINANCIAL ASSETS*

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

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

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

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

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

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

- for financial assets carried at amortized cost (loans & receivables and held-to-maturity investments), if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The

carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

- when a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset has incurred a “significant or prolonged” loss of value, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

Any writebacks are recognized as follows:

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

The price of impaired financial instruments is determined as follows:

- for financial assets classified as held to maturity investments and loans & receivables, it is the present value of the expected cash flows (not considering future losses that have not yet occurred) discounted at the original internal rate of return of the instrument;
- for financial assets classified as available for sale, it is the fair value of the instrument.
- Financial assets subject to impairment testing are debt securities and equity securities classified in the following IAS categories:
- Held to Maturity (HTM),
- Loans and Receivables (L&R),
- Available for Sale (AFS).

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

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

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

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

#### *DEBT SECURITIES*

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

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

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

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

#### *EQUITY SECURITIES*

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

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

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

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

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

#### *OTHER NON-FINANCIAL ASSETS*

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

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

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

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

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

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

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

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

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

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

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

### Financial guarantees

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

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

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

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

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

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

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

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

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

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

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

#### **A.3.3 TRANSFERS OF FINANCIAL ASSETS HELD FOR TRADING**

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

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

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

## A.4 – FAIR VALUE DISCLOSURE

### Qualitative disclosures

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

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

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

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

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

### Mark to Market approach

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

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

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

### Comparable Approach

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



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

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

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

### Mark to Model approach

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

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

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

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

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

- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued on the basis of direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date, the market multiples approach for comparable companies and, subordinately, financial and income valuation techniques;
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds.
- 

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

Valuation adjustments are intended to:

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

The factors impacting the need for an adjustment are:

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

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

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

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

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

## A.4.2 Valuation processes and sensitivity

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

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

## A.4.3 Fair value hierarchy

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

- **Level 1: unadjusted quoted prices on an active market.** Fair value is drawn directly from quoted prices observed on active markets;
- **Level 2:** inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;
- **Level 3: inputs that are not observable on the market.** Fair value is determined using valuation techniques that use significant unobservable inputs.

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

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

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

## A.4.4 Other information

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

### Quantitative disclosures

## A.4.5 FAIR VALUE HIERARCHY

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

	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	11,726	304,782	277	91,041	328,899	238
2. Financial assets measured at fair value	-	15,630	-	-	14,559	-
3. Financial assets available for sale	2,872,968	551,112	74,885	4,874,098	712,085	64,486
4. Hedging derivatives	-	6,716	-	-	15,326	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
<b>TOTAL</b>	<b>2,884,694</b>	<b>878,240</b>	<b>75,162</b>	<b>4,965,139</b>	<b>1,070,869</b>	<b>64,724</b>
1. Financial liabilities held for trading	50,659	314,725	-	98,455	324,160	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	48,028	-	-	51,815	-
<b>TOTAL</b>	<b>50,659</b>	<b>362,754</b>	<b>-</b>	<b>98,455</b>	<b>375,975</b>	<b>-</b>

Key:

L1= Level 1

L2= Level 2

L3= Level 3

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

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

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

Furthermore, with regard to the quantitative impact on the fair value measurement of derivatives, the determination of the Credit Value Adjustment (an adjustment regarding the default risk of counterparties) had a negative impact of about €19 migliaia di Euro, thousand, while there were no change attributable to the Debt Value Adjustment.

### A.4.5.2 CHANGE FOR THE PERIOD IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE	FINANCIAL ASSETS AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY AND EQUIPMENT	INTANGIBLE ASSETS
<b>1. Opening balance</b>	<b>238</b>	-	<b>64,486</b>	-	-	-
<b>2. Increases</b>	<b>6,193</b>	-	<b>40,239</b>	-	-	-
2.1 Purchases	6,178	-	38,614	-	-	-
2.2 Profits recognized in:	15	-	1,625	-	-	-
2.2.1 Income statement	15	-	868	-	-	-
- of which: capital gains	1	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	757	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
<b>3. Decreases</b>	<b>6,154</b>	-	<b>29,840</b>	-	-	-
3.1 Sales	6,154	-	29,840	-	-	-
3.2 Redemptions	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-
3.3.1 Income statement	-	-	-	-	-	-
- of which: capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
<b>4. Closing balance</b>	<b>277</b>	-	<b>74,885</b>	-	-	-

With regard to paragraph 93 e) of IFRS 13, the table reports, with regard to Level 3 fair value valuations only for each category of financial instrument, the following information:

- a reconciliation of from the opening balance to the closing balances, with separate disclosure of changes in the period attributable to Purchases, sales and gains/losses, distinguishing in the latter case between those recognized profit or loss and those in other comprehensive income

In addition, during the year there were no changes in one or more inputs reflecting reasonably possible alternative assumptions that would change fair value significantly.

### A.4.5.3 CHANGE FOR THE PERIOD IN FINANCIAL LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

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

#### 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

	31/12/2017				31/12/2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	1,600,390	1,603,260		
2. Due from banks	24,560,757	-	6,725,641	17,703,819	30,999,442	-	9,898,153	21,024,262
3. Loans to customers	5,985,237	-	1,645,645	2,471,369	4,181,848	-	1,538,373	2,712,610
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>30,545,994</b>	<b>-</b>	<b>8,371,286</b>	<b>20,175,188</b>	<b>36,781,680</b>	<b>1,603,260</b>	<b>11,436,526</b>	<b>23,736,872</b>
1. Due to banks	19,401,520	-	269,519	18,917,415	13,265,099	-	652,084	12,598,233
2. Due to customers	8,243,380	-	46,326	8,175,690	24,444,622	-	24,326	24,393,912
3. Securities issued	5,874,245	5,317,114	600,938	-	4,207,517	3,607,331	627,977	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>33,519,145</b>	<b>5,317,114</b>	<b>916,783</b>	<b>27,093,105</b>	<b>41,917,238</b>	<b>3,607,331</b>	<b>1,304,387</b>	<b>36,992,145</b>

Key:

CA= Carrying amount

L1= Level 1

L2= Level 2

L3= Level 3

#### A.5 – DISCLOSURE ON “DAY ONE PROFIT/LOSS”

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph 28. More specifically, the net negative effect of about €302 thousand, was associated with the cash flow hedge of the BTP Italia. Two additional fair value hedges of BTPs linked to European inflation had an immaterial net difference between the day one profit of the securities and the day one loss of the corresponding hedge derivatives.

## **PART B**

Information on the balance sheet





## ASSETS

### SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

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

#### CASH AND CASH EQUIVALENTS: COMPOSITION

	31/12/2017	31/12/2016
a) Cash	98,307	98,424
b) Demand deposits with central banks	-	-
<b>TOTAL</b>	<b>98,307</b>	<b>98,424</b>

"Cash" includes foreign currency in the amount of €17,696 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

	31/12/2017			31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>A. On-balance-sheet assets</b>						
<b>1. Debt securities</b>	<b>10,909</b>	<b>620</b>	<b>100</b>	<b>90,627</b>	<b>4</b>	<b>79</b>
1.1 structured securities	201	-	-	6,383	-	79
1.2 other debt securities	10,708	620	100	84,244	4	-
<b>2. Equity securities</b>	<b>187</b>	<b>68</b>	<b>177</b>	<b>170</b>	<b>78</b>	<b>159</b>
<b>3. Units in collective investment undertakings</b>	<b>539</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
<b>TOTAL A</b>	<b>11,635</b>	<b>688</b>	<b>277</b>	<b>90,897</b>	<b>82</b>	<b>238</b>
<b>B. Derivatives</b>						
<b>1. Financial derivatives</b>	<b>91</b>	<b>304,094</b>	<b>-</b>	<b>144</b>	<b>328,817</b>	<b>-</b>
1.1 trading	91	304,094	-	144	328,817	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
<b>2. Credit derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>TOTAL B</b>	<b>91</b>	<b>304,094</b>	<b>-</b>	<b>144</b>	<b>328,817</b>	<b>-</b>
<b>TOTAL (A+B)</b>	<b>11,726</b>	<b>304,782</b>	<b>277</b>	<b>91,041</b>	<b>328,899</b>	<b>238</b>

## 2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>A. On-balance-sheet assets</b>		
<b>1. Debt securities</b>	<b>11,629</b>	<b>90,711</b>
a) Governments and central banks	5,546	83,968
b) Other government agencies	2	-
c) Banks	4,008	5,768
d) Other issuers	2,073	975
<b>2. Equity securities</b>	<b>432</b>	<b>406</b>
a) Banks	-	-
b) Other issuers:	432	406
- insurance undertakings	-	-
- financial companies	71	71
- non-financial companies	361	336
- other	-	-
<b>3. Units in collective investment undertakings</b>	<b>539</b>	<b>100</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>TOTAL A</b>	<b>12,600</b>	<b>91,217</b>
<b>B. Derivatives</b>		
<b>a) Banks</b>	<b>285,987</b>	<b>295,886</b>
- fair value	285,987	295,886
<b>b) Customers</b>	<b>18,198</b>	<b>33,075</b>
- fair value	18,198	33,075
<b>TOTAL B</b>	<b>304,185</b>	<b>328,961</b>
<b>TOTAL (A+B)</b>	<b>316,785</b>	<b>420,178</b>

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

### SECTION 3 - FINANCIAL ASSETS MEASURED 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 MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	31/12/2017			31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt securities</b>	-	15,630	-	-	14,559	-
1.1 structured securities	-	15,630	-	-	14,559	-
1.2 other debt securities	-	-	-	-	-	-
<b>2. Equity securities</b>	-	-	-	-	-	-
<b>3. Units in collective investment undertakings</b>	-	-	-	-	-	-
<b>4. Loans</b>	-	-	-	-	-	-
4.1 structured	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
<b>TOTAL</b>	-	15,630	-	-	14,559	-
<b>COST</b>	-	14,559	-	-	14,978	-

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

#### 3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>1. Debt securities</b>	15,630	14,559
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	15,630	14,559
d) Other issuers	-	-
<b>2. Equity securities</b>	-	-
a) Banks	-	-
b) other issuers:	-	-
- insurance undertakings	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. Units in collective investment undertakings</b>	-	-
<b>4. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>TOTAL</b>	15,630	14,559

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

## 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

	31/12/2017			31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt securities</b>	<b>2,862,238</b>	<b>156,898</b>	<b>-</b>	<b>4,855,870</b>	<b>295,581</b>	<b>-</b>
1.1 structured securities	-	-	-	15,838	72	-
1.2 other debt securities	2,862,238	156,898	-	4,840,032	295,509	-
<b>2. Equity securities</b>	<b>1,863</b>	<b>-</b>	<b>66,561</b>	<b>17,437</b>	<b>-</b>	<b>37,807</b>
2.1 at fair value	1,863	-	40,469	17,437	-	18,140
2.2 carried at cost	-	-	26,092	-	-	19,667
<b>3. Units in collective investment undertakings</b>	<b>8,867</b>	<b>394,214</b>	<b>8,324</b>	<b>791</b>	<b>416,504</b>	<b>26,679</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>2,872,968</b>	<b>551,112</b>	<b>74,885</b>	<b>4,874,098</b>	<b>712,085</b>	<b>64,486</b>

The item mainly comprises government securities.

### 4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>1. Debt securities</b>	<b>3,019,136</b>	<b>5,151,451</b>
a) Governments and central banks	2,895,611	5,134,962
b) Other government agencies	-	-
c) Banks	33,757	8,405
d) Other issuers	89,768	8,084
<b>2. Equity securities</b>	<b>68,424</b>	<b>55,244</b>
a) Banks	41,825	10,808
b) Other issuers:	26,599	44,436
- insurance undertakings	3,523	14,189
- financial companies	19,381	23,167
- non-financial companies	3,695	7,080
- other	-	-
<b>3. Units in collective investment undertakings</b>	<b>411,405</b>	<b>443,974</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>TOTAL</b>	<b>3,498,965</b>	<b>5,650,669</b>

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

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

- Fondo Securis Real Estate III €79,522 thousand
- Fondo Securis Real Estate II €146,657 thousand
- Fondo Securis Real Estate I €168,035 thousand

At December 31, 2017 total writedowns of €18,752 thousand had been recognized on those funds.

### Impairment testing of financial assets available for sale

As required under the IFRSs, financial assets available for sale undergo impairment testing to assess whether there is objective evidence that the carrying value of such assets is not fully recoverable. The detection of any impairment involves the verification of the presence of impairment indicators and the determination of any writedown.

Impairment indicators are essentially divided into two categories: those deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equity instruments - external quantitative indicators deriving from the market values of the company.

In the first category, the following indicators are considered significant: the generation of losses or, in any case, a significant gap with respect to the targets budgeted for or set forth in the multi-annual plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating issued by a specialist agency. As regards the second category, a substantial or prolonged reduction in fair value below the initial recognition value is considered significant; more specifically, a reduction in fair value of more than 30% is considered substantial, and a continuous reduction for a period of more than 18 months is considered prolonged. If one of these thresholds is exceeded, impairment of the security is recognized. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

A further test was conducted at December 31, 2017, updating the test at December 31, 2016, the outcome of which essentially confirmed the values recognized in the separate financial statements of Iccrea Banca, with the exception of Fondo Atlante, for which additional impairment of €22,134 thousand was recognized, and the finance company BCC FVG, which showed impairment of €1,171 thousand.

### 4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Financial assets with specific fair value hedges:</b>	<b>656,403</b>	<b>944,099</b>
a) interest rate risk	656,403	944,099
b) price risk	-	-
c) exchange rate risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
<b>2. Financial assets with specific cash flow hedges:</b>	<b>-</b>	<b>33,646</b>
a) interest rate risk	-	33,646
b) exchange rate risk	-	-
c) other	-	-
<b>TOTAL</b>	<b>656,403</b>	<b>977,745</b>

The amounts regard Italian government securities (BTPs) and a corporate bond hedged with asset swaps against interest rate risk (fair value 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

	31/12/2017				31/12/2016			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt securities</b>	-	-	-	-	<b>1,600,390</b>	<b>1,603,260</b>	-	-
- structured	-	-	-	-	-	-	-	-
- other	-	-	-	-	1,600,390	1,603,260	-	-
<b>2. Loans</b>	-	-	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	<b>1,600,390</b>	<b>1,603,260</b>	-	-

Key:

FV = fair value

CA = carrying amount

The entire HTM portfolio was sold during the year.

### 5.2 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>1. Debt securities</b>	-	<b>1,600,390</b>
a) Governments and central banks	-	1,600,390
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>TOTAL</b>	-	<b>1,600,390</b>
<b>TOTAL FAIR VALUE</b>	-	<b>1,603,260</b>

### 5.3 FINANCIAL ASSETS HELD TO MATURITY: ASSETS HEDGED SPECIFICALLY

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

## SECTION 6 - DUE FROM BANKS – ITEM 60

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

### 6.1 DUE FROM BANKS: COMPOSITION BY TYPE

	31/12/2017					31/12/2016				
	CA	FV			CA	FV				
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3		
<b>A. Claims on central banks</b>	<b>976,297</b>				<b>152,719</b>					
1. Fixed-term deposits	-	X	X	X	-	X	X	X		
2. Reserve requirement	976,297	X	X	X	152,719	X	X	X		
3. Repurchase agreements	-	X	X	X	-	X	X	X		
4. Other	-	X	X	X	-	X	X	X		
<b>B. Due from banks</b>	<b>23,584,459</b>				<b>30,846,723</b>					
1. Financing	19,228,369				26,119,854					
1.1. Current accounts and demand deposits	665,273	X	X	X	568,552	X	X	X		
1.2. Fixed-term deposits	93,347	X	X	X	98,880	X	X	X		
1.3. Other financing:	18,469,749	X	X	X	25,452,422	X	X	X		
- Repurchase agreements	97,468	X	X	X	1,939,470	X	X	X		
- Finance leases		X	X	X	-	X	X	X		
- Other	18,372,281	X	X	X	23,512,952	X	X	X		
2. Debt securities	4,356,090				4,726,869					
2.1 Structured securities	33,024	X	X	X	38,104	X	X	X		
2.2 Other debt securities	4,323,065	X	X	X	4,688,765	X	X	X		
<b>TOTAL</b>	<b>24,560,756</b>	<b>-</b>	<b>6,725,641</b>	<b>16,703,819</b>	<b>30,999,442</b>	<b>-</b>	<b>9,898,153</b>	<b>21,024,262</b>		

Key:

FV = fair value

CA = carrying amount

Amounts due from banks are reported net of impairment adjustments.

The fair value is obtained using discounted cash flow techniques.

The sub-item “reserve requirement” includes the requirements managed on behalf of the mutual banks, with a contra-item under item 10 of liabilities (Due to banks).

Loans secured by securities eligible for use in refinancing transactions (pool collateral) amounted to €16,568 million. The loans include €10,123 million in respect of the ECB’s TLTRO II and are reported under letter “B”, “Other financing – Other”. The securities pledged as collateral by the mutual banks and Group companies amount to €18,236 million net of the haircut applied to the various types of security.

During the year, financing involving the transfer of loans through the ABACO process also continued. At the end of the year, the loans received from Iccrea BancaImpresa to guarantee the collateral pool came to €2,310 million which comes to a net of around €996 million after the haircut is applied.

## 6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Loans with specific fair value hedges:</b>	<b>390,730</b>	<b>894,345</b>
a) interest rate risk	390,730	894,345
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans with specific cash flow hedges:</b>	<b>-</b>	<b>-</b>
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
<b>TOTAL</b>	<b>390,730</b>	<b>894,345</b>

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

## 6.3 FINANCE LEASES

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



## 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

	31/12/2017						31/12/2016					
	CARRYING AMOUNT			FAIR VALUE			CARRYING AMOUNT			FAIR VALUE		
	PERFORMING	IMPAIRED		Level 1	Level 2	Level 3	PERFORMING I	IMPAIRED		Level 1	Level 2	Level 3
		PURCHASED	OTHER					PURCHASED	OTHER			
<b>Loans</b>	<b>5,958,109</b>	-	<b>18,162</b>				<b>4,155,401</b>	-	<b>19,955</b>			
1. Current accounts	121,404	-	241	X	X	X	184,754	-	199	X	X	X
2. Repurchase agreements	3,116,755	-		X	X	X	921,560	-	-	X	X	X
3. Medium/long-term loans	95,887	-	17,783	X	X	X	109,948	-	19,607	X	X	X
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	-	-	-	X	X	X	-	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other	2,624,063	-	138	X	X	X	2,939,139	-	149	X	X	X
<b>Debt securities</b>	<b>8,966</b>	-	-				<b>6,492</b>	-	-			
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	8,966	-	-	X	X	X	6,492	-	-	X	X	X
<b>TOTAL</b>	<b>5,967,075</b>	-	<b>18,162</b>	-	<b>1,645,645</b>	<b>2,471,369</b>	<b>4,161,893</b>	-	<b>19,955</b>	-	<b>1,538,373</b>	<b>2,712,610</b>

Loans to customers are reported net of impairment losses.

The fair value is obtained using discounted cash flow techniques.

## 7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017			31/12/2016		
	PERFORMING	IMPAIRED		PERFORMING	IMPAIRED	
		PURCHASED	OTHER		PURCHASED	OTHER
<b>1. Debt securities:</b>	<b>8,966</b>	-	-	<b>6,492</b>	-	-
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	8,966	-	-	6,492	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	8,966	-	-	6,492	-	-
- insurance undertakings	-	-	-	-	-	-
- other	-	-	-	-	-	-
<b>2. Loans to:</b>	<b>5,958,109</b>	-	<b>18,162</b>	<b>4,155,401</b>	-	<b>19,955</b>
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	5,958,109	-	18,162	4,155,401	-	19,955
- non-financial companies	87,632	-	12,046	48,705	-	14,106
- financial companies	5,741,492	-	-	3,968,086	-	-
- insurance undertakings	60,565	-	-	60,538	-	-
- other	68,420	-	6,116	78,072	-	5,849
<b>TOTAL</b>	<b>5,967,075</b>	-	<b>18,162</b>	<b>4,161,893</b>	-	<b>19,955</b>

The distribution of financial assets by economic sector of the debtors or the issuers (for securities) was carried out on the basis of the classification criteria provided for by the Bank of Italy.

## 7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Loans with specific fair value hedges:</b>	<b>21,043</b>	<b>23,760</b>
a) interest rate risk	21,043	23,760
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans with specific cash flow hedges:</b>	-	-
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
<b>TOTAL</b>	<b>21,043</b>	<b>23,760</b>

Loans covered by fair value micro-hedges are reported at cost adjusted by changes in fair value attributable to the hedged risk accrued as of the reporting date. The amount reported regards a fixed-rate loan to BCC Solutions in the amount of €17,893 thousand (outstanding debt at December 31, 2017), hedged against interest rate risk (fair value hedge).

## 7.4 FINANCE LEASING

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

## SECTION 8 - HEDGING DERIVATIVES – ITEM 80

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

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

	FV AT 31/12/2017			NV AT 31/12/2017	FV AT 31/12/2016			NV AT 31/12/2016
	L1	L2	L3		L1	L2	L3	
<b>A) Financial derivatives</b>	-	<b>6,716</b>	-	<b>646,703</b>	-	<b>15,325</b>	-	<b>3,187,153</b>
1) Fair value	-	5,363	-	613,350	-	7,896	-	3,097,029
2) Cash flows	-	1,353	-	33,353	-	7,429	-	90,124
3) Investments in foreign operations	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>TOTAL</b>	-	<b>6,716</b>	-	<b>646,703</b>	-	<b>15,325</b>	-	<b>3,187,153</b>

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

	FAIRVALUE					GENERIC	FLUSSI FINANZIARI		INVESTMENTS IN FOREIGN OPERATIONS
	SPECIFIC						SPECIFIC	GENERIC	
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS				
1. Financial assets available for sale	549	-	-	-	-	X	-	X	X
2. Loans	439	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	62	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
<b>TOTAL ASSETS AT 31/12/2017</b>	<b>988</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	4,313	-	-	X	-	X	1,353	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
<b>TOTAL LIABILITIES AT 31/12/2017</b>	<b>4,313</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>-</b>	<b>-</b>	<b>1,353</b>	<b>-</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

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

More specifically, "Financial assets available for sale" are represented by an asset swap hedging a fixed-rate government security and a corporate security.

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

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

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

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

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

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

**9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS**

	31/12/2017	31/12/2016
<b>1. Positive adjustments</b>	<b>5</b>	<b>-</b>
1.1 of specific portfolios:	5	-
a) loans	5	-
b) financial assets available for sale	-	-
1.2 comprehensive	-	-
<b>2. Negative adjustments</b>	<b>-</b>	<b>(348)</b>
2.1 of specific portfolios:	-	(348)
a) loans	-	(348)
b) financial assets available for sale	-	-
2.2 comprehensive	-	-
<b>TOTAL</b>	<b>5</b>	<b>(348)</b>

**9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK**

	31/12/2017	31/12/2016
1. Loans	434,000	3,028,456
2. Assets available for sale	-	-
3. Portfolio	-	-
<b>TOTAL</b>	<b>434,000</b>	<b>3,028,456</b>

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

## SECTION 10 – EQUITY INVESTMENTS – ITEM 100

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

	REGISTERED OFFICE	OPERATIONAL HEADQUARTERS	% HOLDING	% OF VOTES
<b>A. Wholly-owned subsidiaries</b>				
Iccrea Bancalmpresa S.p.A.	Rome	Rome	99.33	99.33
BCC Beni Immobili s.r.l.	Milan	Rome	100.00	100.00
BCC Retail scarl	Milan	Milan	39.30	39.30
Ventis s.r.l.	Milan	Milan	95.00	95.00
Bcc Sistemi Informatici	Milan	Milan	98.53	98.53
BCC Risparmio e Previdenza	Milan	Milan	75.00	75.00
BCC Gestione Crediti	Rome	Rome	55.00	55.00
BCC Solutions	Rome	Rome	100.00	100.00
BCC Credito Consumo	Rome	Udine	96.00	96.00
Banca Sviluppo	Rome	Rome	68.07	68.07
QF Securfondo	Rome	Milan	54.40	54.40
<b>C. Companies subject to significant influence</b>				
Satsipay S.p.A.	Milan	Milan	15.72	15.72
M-Facility S.p.A.	Rome	Rome	37.50	37.50
Hi-Mtf S.p.A.	Milan	Milan	25.00	25.00
BCC Vita S.p.A.	Milan	Milan	49.00	49.00
BCC Assicurazioni	Milan	Milan	49.00	49.00
Accademia BCC S.c.p.A.	Rome	Rome	26.05	26.05

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

Satsipay S.p.A. has been included within the scope of consolidation in view of the influence exercised on the Board of Directors under the terms of the shareholders' agreements.

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

	CARRYING AMOUNT	FAIR VALUE	DIVIDENDS RECEIVED
<b>A. Wholly-owned subsidiaries</b>			
Iccrea Bancalmpresa S.p.A.	740,420	-	
BCC Beni Immobili s.r.l.	18,314	-	
BCC Retail scarl	393	-	
Ventis s.r.l.	-	-	
Bcc Sistemi Informatici	45,025	-	
BCC Risparmio e Previdenza	22,474	-	5,992
BCC Gestione Crediti	1,411	-	
BCC Solutions	75,700	-	4000
BCC Credito Consumo	55,041	-	9,005
Banca Sviluppo	101,052	-	
QF Securifondo	16,438	-	
<b>C. Companies subject to significant influence</b>			
Satsipay S.P.A.	6,112		
M-Facility S.P.A.	199	-	
Hi-Mtf S.p.A.	1,250	-	
BCC Vita S.p.A.	101,430	-	4,192
BCC Assicurazioni	8,080	-	
Accademia BCC S.c.p.A.	208	-	
<b>TOTAL</b>	<b>1,193,547</b>	<b>-</b>	<b>23,189</b>

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

	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	FINANCIAL LIABILITIES	NON-FINANCIAL LIABILITIES	TOTAL REVENUES	NET INTEREST INCOME	NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS	PROFIT (LOSS) BEFORE TAX ON CONTINUING OPERATIONS	PROFIT (LOSS) AFTER TAX ON CONTINUING OPERATIONS	PROFIT (LOSS) AFTER TAX OF NON-CURRENT ASSETS HELD FOR SALE	NET PROFIT (LOSS) FOR THE PERIOD (1)	OTHER COMPREHENSIVE INCOME NET OF TAXES (2)	COMPREHENSIVE INCOME (3)=(1) + (2)
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#### A. Wholly-owned subsidiaries

Iccrea BancaImpresa S.p.A.	32	119,204	8,253,986	4,084,017	4,289,205	260,678	206,925	(331)	19,873	15,410	-	15,410	-	15,410
BCC Beni Immobili s.r.l.	-	-	25,174	-	25,174	1,832	118	(1,146)	301	152	-	152	-	152
BCC Retail	-	-	3,306	-	3,306	4	3	(136)	(169)	(141)	-	(141)	-	(141)
Ventis s.r.l.	157	195	3,342	-	3,694	688	(90)	(61)	(2,391)	(2,391)	-	(2,391)	-	(2,391)
Bcc Sistemi Informatici	4	17	73,305	-	73,326	81,498	(168)	(11,924)	89	39	-	39	-	39
BCC Risparmio e Previdenza	2	6,580	79,559	-	86,141	143,728	44,496	(326)	25,943	18,081	-	18,081	-	18,081
BCC Gestione Crediti	1	-	13,218	-	13,219	17,962	13,142	(40)	4,091	2,774	-	2,774	-	2,774
BCC Solutions	1	2	106,030	-	106,033	36,311	(894)	(3,985)	3,252	2,335	-	2,335	-	2,335
BCC Credito Consumo	30	30	945,125	-	945,185	73,383	47,918	(43)	15,589	10,700	-	10,700	-	10,700
Banca Sviluppo	12,102	424,289	1,447,106	249,598	1,633,899	78,611	59,962	(2,313)	329	252	-	252	-	252
QF Securfondo	-	2,118	29,621	-	31,739	2,013	837	-	(2,205)	(2,205)	-	(2,205)	-	(2,205)

#### B: Joint ventures

#### C. Companies subject to significant influence

Satsipay S.P.A.	-	-	13,361	-	13,361	4,000	X	627	(6,142)	(6,142)	-	(6,142)	-	(6,142)
M-Facility S.P.A.	38	-	736	-	774	-	X	(247)	(462)	(462)	-	(462)	-	(462)
Hi-Mtf S.p.A.	-	1,520	5,284	-	6,804	2,578	X	(83)	144	74	-	74	-	74
BCC Vita S.p.A.	-	2,921,196	120,197	1,363	3,040,030	419,641	X	-	12,676	8,554	-	8,554	-	8,554
BCC Assicurazioni	-	30,921	53,522	2,691	81,752	21,518	X	-	(1,285)	(960)	-	(960)	-	(960)
Accademia BCC S.c.p.A.	1,074	-	1,376	-	2,450	2,694	X	(8)	130	79	-	79	-	79

### 10.4 MINOR EQUITY INVESTMENTS: ACCOUNTING INFORMATION

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



## 10.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	31/12/2017	31/12/2016
<b>A. Opening balance</b>	<b>1,139,963</b>	<b>263,610</b>
<b>B. Increases</b>	<b>77,983</b>	<b>878,312</b>
B.1 Purchases	69,700	15,760
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	8,283	862,552
<b>C. Decreases</b>	<b>24,399</b>	<b>1,959</b>
C.1 Sales	-	-
C.2 Writedowns	2,859	1,959
C.3 Other changes	21,540	-
<b>D. Closing balance</b>	<b>1,193,547</b>	<b>1,139,963</b>
<b>E. Total revaluations</b>	<b>-</b>	<b>-</b>
<b>F. Total writedowns</b>	<b>4,818</b>	<b>1,959</b>

Item “B.1 purchases” mainly regards the subscription of the capital increase of Iccrea BancaImpresa in the amount of €60 million, BCC Credito Consumo in the amount of €4.8 million and BCC Vita in the amount of €4.9 million. Item “B.4 Other changes” includes the capital contributions to BCC Retail in the amount of €0.393 thousand and Ventis in the amount of €1.8 million, as well as the reclassification in that category of the equity interest in Satispay in the amount of €6.1 million.

The item “C.2 Writedowns” reports the impairment of the holdings in Banca Sviluppo in the amount of €0.907 million, Ventis in the amount of €1.778 million and M-Facility in the amount of €0.174 million.

The item “C.3 Other changes” regards the redemption of the “Securfondo” closed-end real estate investment fund.

### Impairment tests of equity investments

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income.

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

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

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

### 10.6 COMMITMENTS IN RESPECT OF JOINT VENTURES

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

### 10.7 COMMITMENTS IN RESPECT OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

### 10.8 MATERIAL RESTRICTIONS

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

### 10.9 OTHER INFORMATION

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

## 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

	31/12/2017	31/12/2016
<b>1. Owned assets</b>	<b>14,430</b>	<b>12,567</b>
a) land	-	-
b) buildings	-	-
c) movables	199	379
d) electronic plant	13,683	11,641
e) other	548	547
<b>2 Assets acquired under financial leases</b>	<b>-</b>	<b>-</b>
a) land	-	-
b) buildings	-	-
c) movables	-	-
d) electronic plant	-	-
e) other	-	-
<b>TOTAL</b>	<b>14,430</b>	<b>12,567</b>

### 11.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

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

### 11.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

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

### 11.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

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

## 11.5 OPERATING PROPERTY AND EQUIPMENT: CHANGE FOR THE PERIOD

	LAND	BUILDINGS	MOVABLE S	ELECTRONIC PLANT	OTHER	31/12/2017
<b>A. Opening gross balance</b>	-	-	379	11,641	547	12,567
A.1 Total net writedown	-	-	-	-	-	-
<b>A.2 Opening net balance</b>	-	-	379	11,641	547	12,567
<b>B. Increases:</b>	-	-	-	5,641	51	5,692
B.1 Purchases	-	-	-	5,641	51	5,692
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
<b>C. Decreases:</b>	-	-	180	3,599	50	3,829
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	180	3,599	50	3,829
C.3 Writedowns for impairment recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognized in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) discontinuing operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
<b>D. Closing net balance</b>	-	-	199	13,683	548	14,430
D.1 Total net writedowns	-	-	180	3,599	50	3,829
D.2 Closing gross balance	-	-	379	17,282	598	18,259
<b>E. Measurement at cost</b>	-	-	379	17,282	598	18,259

## 11.6 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

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

## 11.7 COMMITMENTS TO ACQUIRE PROPERTY AND EQUIPMENT (IAS 16/74.C)

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

## 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

	31/12/2017		31/12/2016	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	11,126	-	5,682	-
A.2.1 Assets carried at cost:	11,126	-	5,682	-
a) internally generated intangible assets	-	-	-	-
b) other assets	11,126	-	5,682	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
<b>TOTAL</b>	<b>11,126</b>	<b>-</b>	<b>5,682</b>	<b>-</b>

## 12.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	GOODWILL	OTHER INTANGIBLE ASSETS: INTERNALLY GENERATED		OTHER INTANGIBLE ASSETS: OTHER		31/12/2017
		FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE	
<b>A. Opening balance</b>	-	-	-	5,682	-	5,682
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	-	-	-	5,682	-	5,682
<b>B. Increases</b>	-	-	-	10,576	-	10,576
B.1 Purchases	-	-	-	10,576	-	10,576
- business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value gains recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	5,131	-	5,131
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	-	-	5,131	-	5,131
- Amortization	X	-	-	5,131	-	5,131
- Impairment	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value losses recognized in	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Closing net balance</b>	-	-	-	11,126	-	11,126
D.1 Total net writedown	-	-	-	-	-	-
<b>E. Closing gross balance</b>	-	-	-	11,126	-	11,126
<b>F. Measurement at cost</b>	-	-	-	-	-	-

The increase in the item is also due to the acquisition of about €2 million in software associated with the project to establish the Mutual Banking Group.

## 12.3 OTHER INFORMATION

Under the provisions of IAS 38, paragraphs 122 and 124, we report:

- there are no revalued intangible assets; consequently, there are no impediments to the distribution to shareholders of gains on revalued intangible assets (IAS 38, paragraph 124, letter b);
- there are no intangible assets acquired with government grants (IAS 38, paragraph 122, letter c);
- there are no intangible assets pledged as security for liabilities (IAS 38, paragraph 122, letter d);
- there are no intangible assets involved in lease transactions.

## 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

	31/12/2017	31/12/2016
<b>A. Gross deferred tax assets</b>	<b>27,627</b>	<b>36,343</b>
A1. Loans (including securitizations)	2,719	2,969
A2. Other financial instruments	1,688	3,272
A3. Goodwill	-	-
A4. Deferred charges	-	-
A5. Property and equipment	-	-
A6. Provisions for risks and charges	3,452	3,894
A7. Entertainment expenses	-	-
A8. Personnel costs	758	926
A9. Tax losses	16,174	18,639
A10. Unused tax credits to deduct	2,836	6,643
A11. Other	-	-
<b>B. Offsetting with deferred tax liabilities*</b>	<b>3,005</b>	<b>5,912</b>
<b>C. Net deferred tax assets (A-B)</b>	<b>24,622</b>	<b>30,431</b>

### 13.2 DEFERRED TAX LIABILITIES: COMPOSITION

	31/12/2017	31/12/2016
<b>A. Gross deferred tax liabilities</b>	<b>5,778</b>	<b>7,878</b>
A1. Capital gains tax in installments	1,166	2,369
A2. Goodwill	-	-
A3. Property and equipment	-	-
A4. Financial instruments	4,612	5,509
A5. Personnel costs	-	-
A6. Other	-	-
<b>B. Offsetting with deferred tax assets</b>	<b>3,005</b>	<b>5,912</b>
<b>C. Net deferred tax liabilities (A-B)</b>	<b>2,773</b>	<b>1,966</b>

#### DEFERRED TAXES NOT RECOGNIZED

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

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

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

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>32,719</b>	<b>6,573</b>
<b>2. Increases</b>	<b>2,822</b>	<b>31,665</b>
2.1 Deferred tax assets recognized during the period	2,822	31,665
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	2,822	31,665
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>9,774</b>	<b>5,519</b>
3.1 Deferred tax assets derecognized during the period	5,623	5,519
a) reversals	5,623	5,519
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	4,151	-
a) transformation into tax credits pursuant to Law 214/2011	154	-
b) other	3,997	-
<b>4. Closing balance</b>	<b>25,767</b>	<b>32,719</b>

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

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>2,969</b>	<b>3,125</b>
<b>2. Increases</b>	-	-
<b>3. Decreases</b>	<b>250</b>	<b>156</b>
3.1 Reversals	250	156
3.2 Transformation into tax credits	-	-
a) from loss for the year	-	-
b) from tax losses	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>2,719</b>	<b>2,969</b>



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

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

**13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)**

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>3,624</b>	<b>2,613</b>
<b>2. Increases</b>	<b>61</b>	<b>1,012</b>
2.1 Deferred tax assets recognized during the period	61	1,012
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	61	1,012
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>1,824</b>	<b>1</b>
3.1 Deferred tax assets derecognized during the period	1,824	1
a) reversals	1,824	1
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>1,861</b>	<b>3,624</b>

### 13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>5,590</b>	<b>20,601</b>
<b>2. Increases</b>	-	<b>860</b>
2.1 Deferred tax liabilities recognized during the period	-	860
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	-	860
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>956</b>	<b>15,871</b>
3.1 Deferred tax liabilities derecognized during the period	956	15,871
a) reversals	956	15,871
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>4,634</b>	<b>5,590</b>

### 13.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial year 2012, following a general audit by the Finance Police between May 8 and July 27, 2017, the assessment raised an issue with the deductibility of a cost recognized in 2012. More specifically, €48,195 was recognized under costs in 2012 and then taxed in 2015 as prior-year income. In October 2017, the Bank accepted the assessment issued by the Large Taxpayer Office of the Regional Tax Department, paying a total of €15,670 in tax plus penalties and interest.
- for the financial years 2013, 2014, 2015 and 2016 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- On November 4, 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

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

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

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

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

### 14.2 OTHER INFORMATION

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

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

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

## SECTION 15 - OTHER ASSETS – ITEM 150

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

### 15.1 OTHER ASSETS: COMPOSITION

	31/12/2017	31/12/2016
Items being processed	45,554	66,845
Receivables for future premiums	16,870	18,874
Commissions	33,302	25,849
Receivables due from Parent Company in respect of consolidated tax mechanism	12,330	-
Definitive items not allocable to other accounts	104,535	33,345
Tax receivables due from tax authorities and other entities	36,928	42,054
<b>TOTAL</b>	<b>249,519</b>	<b>186,967</b>

The item “Definitive items not allocable to other accounts” comprises transactions that were settled in the first few days of 2018.

## 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

	31/12/2017	31/12/2016
<b>1. Due to central banks</b>	<b>13,836,426</b>	<b>5,500,000</b>
<b>2. Due to banks</b>	<b>5,565,094</b>	<b>7,765,099</b>
2.1 Current accounts and demand deposits	2,573,680	4,018,089
2.2 Fixed-term deposits	2,620,224	3,310,672
2.3 Loans	370,153	433,206
2.3.1 Repurchase agreements	361,200	421,991
2.3.2 Other	8,953	11,215
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	1,037	3,133
<b>TOTAL</b>	<b>19,401,520</b>	<b>13,265,099</b>
Fair value level 1	-	-
Fair value level 2	269,519	652,084
Fair value level 3	18,917,415	12,598,233
<b>TOTAL FAIR VALUE</b>	<b>19,186,934</b>	<b>13,250,317</b>

The item “due to central banks” represents financing from the ECB. In March 2017, the Bank participated in the last T-LTRO II auction, using the residual available funds of €8.9 billion, thereby using the maximum amount available to the Group of €13.8 billion. Those loans fall due in June 2020.

The sub-item “fixed-term deposits” also includes deposits received from mutual banks in the amount of about €897 million used to meet reserve requirements indirectly.

The fair value is obtained using discounted cash flow techniques.

#### 1.2 BREAKDOWN OF ITEM 10 “DUE TO BANKS”: SUBORDINATED LIABILITIES

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

#### 1.3 BREAKDOWN OF ITEM 10 “DUE TO BANKS”: STRUCTURED LIABILITIES

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

#### 1.4 DUE TO BANKS: LIABILITIES HEDGED SPECIFICALLY

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

#### 1.5 LIABILITIES IN RESPECT OF FINANCE LEASES

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

## 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

	31/12/2017	31/12/2016
1. Current accounts and demand deposits	400,771	276,011
2. Fixed-term deposits	-	2,223
3. Loans	7,334,827	23,535,189
3.1 Repurchase agreements	7,334,827	23,535,189
3.2 Other	-	-
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other payables	507,782	631,199
<b>TOTAL</b>	<b>8,243,380</b>	<b>24,444,622</b>
Fair value level 1	-	-
Fair value level 2	46,326	24,326
Fair value level 3	8,175,689	24,393,912
<b>TOTAL FAIR VALUE</b>	<b>8,222,015</b>	<b>24,418,238</b>

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.

### 2.2 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: SUBORDINATED LIABILITIES

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

### 2.3 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: STRUCTURED LIABILITIES

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

### 2.4 DUE TO CUSTOMERS: LIABILITIES HEDGED SPECIFICALLY

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

### 2.5 LIABILITIES IN RESPECT OF FINANCE LEASES

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

## 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

	31/12/2017				31/12/2016			
	CARRYING AMOUNT	FAIR VALUE			CARRYING AMOUNT	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
<b>A. Securities</b>								
1. Bonds	5,874,245	5,317,114	600,938	-	4,207,517	3,607,331	627,977	-
1.1 structured	33,537	32,633	1,614	-	404,319	413,282	3,609	-
1.2 other	5,840,708	5,284,481	599,324	-	3,803,198	3,194,049	624,368	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>5,874,245</b>	<b>5,317,114</b>	<b>600,938</b>	<b>-</b>	<b>4,207,517</b>	<b>3,607,331</b>	<b>627,977</b>	<b>-</b>

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.

The sub-item "1.2 Bonds - other" includes subordinated bonds of €277.128 million.

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

At December 31, 2017 the following subordinated securities were in issue:

1. Issue date March 6, 2014, Maturity date March 6, 2021, initial nominal value of €200 million, residual nominal value at December 31: €140.205 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments.
2. Issue date June 18, 2015, Maturity date June 18, 2025, nominal value of €104.050 million, annual interest rate 6-month Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
3. Issue date June 29, 2015, Maturity date June 29, 2025, nominal value of €11.848 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
4. Issue date July 30, 2015, Maturity date July 30, 2025, nominal value of €16 million, interest rate 6-month Euribor + 350 basis points, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

### 3.3 SECURITIES ISSUED: SECURITIES HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Securities covered by specific fair value hedges</b>	<b>422,174</b>	<b>470,399</b>
a) interest rate risk	422,174	470,399
b) exchange rate risk	-	-
c) multiple risks	-	-
<b>2. Liabilities covered by specific cash flow hedges:</b>	<b>71,925</b>	<b>80,166</b>
a) interest rate risk	-	-
b) exchange rate risk	71,925	80,166
c) other	-	-
<b>TOTAL</b>	<b>494,099</b>	<b>550,565</b>

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

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

## SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

This item reports financial derivatives held for trading.

### 4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2017					31/12/2016				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
<b>A. On-balance-sheet liabilities</b>										
<b>1. Due to banks</b>	124	133	-	-	133	571	606	-	-	606
<b>2. Due to customers</b>	50,279	50,497	84	-	50,581	91,863	96,983	16	-	96,999
<b>3. Debt securities</b>	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
<b>TOTAL A</b>	<b>50,403</b>	<b>50,630</b>	<b>84</b>	<b>-</b>	<b>50,714</b>	<b>92,434</b>	<b>97,589</b>	<b>16</b>	<b>-</b>	<b>97,605</b>
<b>B. Derivatives</b>										
<b>1. Financial derivatives</b>	X	28	314,642	-	X	X	866	324,145	-	X
1.1 Trading	X	28	314,642	-	X	X	866	324,145	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
<b>2. Credit derivatives</b>	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>TOTAL B</b>	<b>X</b>	<b>28</b>	<b>314,642</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>866</b>	<b>324,145</b>	<b>-</b>	<b>X</b>
<b>TOTAL (A+B)</b>	<b>X</b>	<b>50,658</b>	<b>314,726</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>98,455</b>	<b>324,161</b>	<b>-</b>	<b>X</b>

Key

FV = Fair value

FV\* = Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

### 4.2 BREAKDOWN OF ITEM 40 "FINANCIAL LIABILITIES HELD FOR TRADING": SUBORDINATED LIABILITIES

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

### 4.3 BREAKDOWN OF ITEM 40 "FINANCIAL LIABILITIES HELD FOR TRADING": STRUCTURED LIABILITIES

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



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

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

**SECTION 6 - HEDGING DERIVATIVES – ITEM 60**

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

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

	31/12/2017			NV AT 31/12/2017	31/12/2016			NV AT 31/12/2016
	L1	L2	L3		L1	L2	L3	
<b>A) Financial derivatives</b>	-	48,028	-	1,322,906	-	51,815	-	2,128,842
1) Fair value	-	44,069	-	1,281,215	-	47,571	-	2,096,242
2) Cash flows	-	3,959	-	41,691	-	4,244	-	32,600
3) Investments in foreign operations	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>TOTAL</b>	-	48,028	-	1,322,906	-	51,815	-	2,128,842

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

	FAIR VALUE					CASH FLOWS			FOREIGN OPERATIONS
	SPECIFIC					GENERIC	SPECIFIC	GENERIC	
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS				
1. Financial assets available for sale	37,793	-	-	-	-	X	-	X	X
2. Loans	3,144	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	141	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
<b>TOTAL ASSETS AT 31/12/2017</b>	<b>40,937</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	2,991	-	-	X	-	X	3,959	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
<b>TOTAL LIABILITIES AT 31/12/2017</b>	<b>2,991</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>-</b>	<b>-</b>	<b>3,959</b>	<b>-</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	X	-	-

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

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

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

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

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

The item “Financial liabilities”, specific cash flow hedges, includes cross currency interest rate swaps (CCIRS) established to hedge bonds issued by the Bank in US dollars.

## 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

	31/12/2017	31/12/2016
Amounts due to social security institutions and State	14,353	17,690
Amounts available to customers	5,778	15,477
Items being processed	26,485	90,754
Securities to be settled	-	51
Definitive items not allocable to other accounts	197,588	26,605
Liabilities for future premiums	7,652	9,541
Payables to parent company for consolidated taxation mechanism	27,441	-
Subsidiaries – Group VAT mechanism	5,973	
Tax payables due to tax authorities	17,784	56,112
Payables due to employees	6,042	3,213
Invoices to be paid and to be received	62,386	56,041
Failed purchase transactions	95,114	95,877
Illiquid portfolio items	-	18
<b>TOTAL</b>	<b>466,596</b>	<b>371,379</b>

The sub-item “definitive items not allocable to other accounts” include transactions settled in January 2018.

## 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

	31/12/2017	31/12/2016
<b>A. Opening balance</b>	<b>12,263</b>	<b>12,769</b>
<b>B. Increases</b>	<b>382</b>	<b>1,311</b>
B.1 Provisions for the period	-	835
B.2 Other increases	382	477
<b>C. Decreases</b>	<b>1,333</b>	<b>1,817</b>
C.1 Benefit payments	1,319	1,817
C.2 Other decreases	14	-
<b>D. Closing balance</b>	<b>11,312</b>	<b>12,263</b>
<b>Total</b>	<b>11,312</b>	<b>12,263</b>

## 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 €10,571 thousand.

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

- **demographic parameters:** drawn from ISTAT's 2004 mortality tables and the INPS disability tables. As regards the probability of leaving work for reasons other than death, the calculation used turnover rates consistent with past experience, with the annual rate of exit from work set at 2.75%;
- **financial parameters:** the calculations assumed an interest rate of 1.30%;
- **economic parameters:** the rate of inflation was assumed to be 1.50%, while the rate of increase in salaries was 2.62% for all categories of employee and used only for seniority purposes.

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

## SECTION 12 - PROVISIONS FOR RISKS AND CHARGES – ITEM 120

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

### 12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	31/12/2017	31/12/2016
<b>1 Company pension plans</b>		-
<b>2. Other provisions for risks and charges</b>	<b>7,152</b>	<b>12,446</b>
2.1 legal disputes	4,102	7,696
2.2 personnel expenses	885	783
2.3 other	2,165	3,967
<b>TOTAL</b>	<b>7,152</b>	<b>12,446</b>

The sub-item "Legal disputes" includes €953 thousand for revocatory actions in bankruptcy and €3,149 thousand for litigation and disputes. The sub-item "personnel expenses" includes seniority bonuses for employees.

The item "Other" mainly reports the provision to cover the losses of the subsidiary Ventis in the amount of €612 thousand, credit card fraud of €1,182 thousand and €371 thousand for disputes with personnel.

**12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD**

	RETIREMENT PROVISIONS	OTHER PROVISIONS	31/12/2017
<b>A. Opening balance</b>	-	<b>12,446</b>	<b>12,446</b>
<b>B. Increases</b>	-	<b>1,734</b>	<b>1,734</b>
B.1 Provisions for the year	-	1,593	1,593
B.2 Changes due to passage of time	-	141	141
B.3 Changes due to changes in the discount rate	-	-	-
B.4 Other increases	-	-	-
<b>C. Decreases</b>	-	<b>7,028</b>	<b>7,028</b>
C.1 Use during the period	-	6,817	6,817
C.2 Changes due changes in the discount rate	-	-	-
C.3 Other decreases	-	211	211
<b>D. Closing balance</b>	-	<b>7,152</b>	<b>7,152</b>

**12.3 DEFINED-BENEFIT COMPANY PENSION PLANS**

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

**12.4 PROVISIONS - OTHER**

	OPENING BALANCE	USES	PROVISIONS	31/12/2017	31/12/2016
Revocatory actions	5,461	4,508	-	953	5,461
Litigation and disputes	6,202	2,415	1,526	5,313	6,202
Loyalty bonus	783	106	209	886	783
<b>CLOSING BALANCE</b>	<b>12,446</b>	<b>7,029</b>	<b>1,735</b>	<b>7,152</b>	<b>12,446</b>

**SECTION 13 - REDEEMABLE SHARES – ITEM 140**

There were no such shares as of the reporting date.

**SECTION 14 - SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200****14.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION**

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

Following the merger of Iccrea Holding into Iccrea Banca and as a result of the option for shareholders to withdraw from the company, at December 31, 2017 Iccrea Bank held a residual 584,222 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €30,846,921.6.

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

	ORDINARY	OTHER
<b>A. Shares at the start of the year</b>	<b>22,285,487</b>	-
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	569,464	-
<b>A.2 Shares in circulation: opening balance</b>	<b>21,716,023</b>	-
<b>B. Increases</b>	-	-
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	-	-
<b>C. Decreases</b>	<b>14,758</b>	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	14,758	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
<b>D. Shares in circulation: closing balance</b>	<b>21,701,265</b>	-
D.1 Treasury shares(+)	584,222	-
D.2 Shares at the end of the year	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-

## 14.3 SHARE CAPITAL: OTHER INFORMATION

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

## 14.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €401,194 thousand di euro and include: the legal reserve (€50,309 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€333,299 thousand), a IAS FTA reserve (€15,378 thousand), a reserve (€1,843 thousand) created following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of BCC Multimedia, a positive reserve (€162 thousand) related to the transfer of properties to BCC Beni Immobili and a positive reserve (€234 thousand) related to the transfer of the "Branch Services" business unit to Banca Sviluppo. Pursuant to the provisions of the articles of association, at least one-tenth of net profit for the period shall be allocated to the legal reserve until that reserve is equal to one-fifth of share capital. The remaining nine-tenths are available for allocation by the Shareholders' Meeting, which decides on the basis of a proposal of the Board of Directors.

## AVAILABILITY AND FORMATION OF EQUITY RESERVES

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

	AMOUNT	POSSIBLE USES (*)	AVAILABLE AMOUNT	SUMMARY OF USES IN LAST THREE YEARS	
				FOR LOSS COVERAGE	OTHER
Share capital	1,151,045				
Share premium account	4,747				
Treasury shares	(30,847)				
Reserves:					
a) legal reserve	50,309	B	50,309		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	333,299	A – B – C	302,299		
d) other reserves	2,002	A – B – C	2,002		
e) FTA reserve	15,378	A – B – C	15,378		
Valuation reserves:					
a) financial assets available for sale	17,811				
b) cash flow hedges	(1,079)				
c) actuarial gains (losses) on defined-benefit plans	(1,960)				
Valuation reserves:		A – B – C			
(Law 342 of 22/11/2000)	52,062	(**)	52,062		
Net profit for the period	4,751				
<b>Total</b>	<b>1,597,724</b>				

(\*) A = capital increase; B = loss coverage; C = distribution to shareholders (\*\*) If the reserve is used to cover losses, profits may not be distributed until the reserve has been restored or reduced to a corresponding extent. Any such reduction must be approved by the Extraordinary Shareholders' Meeting without the need to comply with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If the reserve is not allocated to share capital, it may only be reduced in compliance with the provisions of paragraphs 2 and 3 of Article 2445 of the Civil Code. If it is distributed to shareholders, it shall form part of the taxable income of the company and the shareholders.

## 14.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

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

## 14.6 OTHER INFORMATION

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



## OTHER INFORMATION

### 1. GUARANTEES ISSUED AND COMMITMENTS

	31/12/2017	31/12/2016
<b>1) Financial guarantees issued</b>	<b>50,652</b>	<b>145,582</b>
a) Banks	41,990	133,331
b) Customers	8,662	12,251
<b>2) Commercial guarantees issued</b>	<b>44,314</b>	<b>49,628</b>
a) Banks	44,314	49,628
b) Customers	-	-
<b>3) Irrevocable commitments to disburse funds</b>	<b>215,962</b>	<b>1,764,801</b>
a) Banks	183,592	542,937
i) certain use	62,548	265,132
ii) uncertain use	121,044	277,805
b) Customers	32,370	1,221,864
i) certain use	32,370	1,221,864
ii) uncertain use	-	-
<b>4) Commitments underlying credit derivatives: sales of protection</b>	<b>15,000</b>	<b>15,000</b>
<b>5) Assets pledged as collateral for third-party debts</b>	<b>-</b>	<b>-</b>
<b>6) Other commitments</b>	<b>50,282</b>	<b>300</b>
<b>TOTAL</b>	<b>376,210</b>	<b>1,975,311</b>

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

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

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

### 2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	31/12/2017	31/12/2016
1. Financial assets held for trading	-	61,035
2. Financial assets at fair value	-	-
3. Financial assets available for sale	889,016	3,523,670
4. Financial assets held to maturity	-	1,600,390
5. Due from banks	311,645	258,164
6. Loans to customers	261,008	1,445,400
7. Property and equipment	-	-

The item includes securities deposited as collateral with the Bank of Italy in the amount of €100,432 thousand, to secure settlement of securities and derivatives in the amount of €6,079 thousand, for Eurosystem funding operations in the amount of €915,342 thousand. The table also reports cash collateral delivered in the amount of €187,309 thousand and cash committed for default funds and margins paid in the amount of €252,507 thousand.

### 3. INFORMATION ON OPERATING LEASES

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

## 4. MANAGEMENT AND INTERMEDIATION SERVICES

This section regards transactions carried out by the Bank on behalf of third parties.

	<b>31/12/2017</b>
<b>1. Order execution on behalf of customers</b>	<b>129,986,233</b>
a) Purchases	67,093,845
1. Settled	67,018,889
2. Not yet settled	74,956
b) Sales	62,892,388
1. Settled	62,849,777
2. Not yet settled	42,611
<b>2. Asset management</b>	-
a) Individual	-
b) Collective	-
<b>3. Securities custody and administration</b>	<b>349,234,503</b>
a) Third-party securities held as part of custodian bank services (excluding asset management)	80,001
1. Securities issued by reporting entity	-
2. Other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	72,895,388
1. Securities issued by reporting entity	4,034,351
2. Other securities	68,861,037
c) Third-party securities deposited with third parties	199,525,980
d) Securities owned by bank deposited with third parties	76,733,134
<b>4. Other transactions</b>	-

## 5. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	GROSS AMOUNT OF FINANCIAL ASSETS	FINANCIAL LIABILITIES OFFSET	NET AMOUNT OF FINANCIAL ASSETS REPORTED	RELATED AMOUNTS NOT OFFSET		NET AMOUNT 31/12/2017	NET AMOUNT 31/12/2016
	(a)	(b)	(c=a-b)	FINANCIAL INSTRUMENTS (d)	CASH COLLATERAL RECEIVED (e)	(f=c-d-e)	
1. Derivatives	288,368	108	288,260	84,427	63,392	140,441	193,560
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>TOTAL 31/12/2017</b>	<b>288,368</b>	<b>108</b>	<b>288,260</b>	<b>84,427</b>	<b>63,392</b>	<b>140,441</b>	<b>x</b>
<b>TOTAL 31/12/2016</b>	<b>275,695</b>	<b>1,473</b>	<b>274,222</b>	<b>80,662</b>	<b>-</b>	<b>x</b>	<b>193,560</b>

## 6. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	GROSS AMOUNT OF FINANCIAL LIABILITIES	FINANCIAL ASSETS OFFSET	NET AMOUNT OF FINANCIAL LIABILITIES REPORTED	RELATED AMOUNTS NOT OFFSET		NET AMOUNT 31/12/2017	NET AMOUNT 31/12/2016
	(a)	(b)	(c=a-b)	FINANCIAL INSTRUMENTS (d)	CASH COLLATERAL RECEIVED (e)	(f=c-d-e)	
1. Derivatives	385,949	2,757	383,192	86,288	99,397	197,507	171,061
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>TOTAL 31/12/2017</b>	<b>385,949</b>	<b>2,757</b>	<b>383,192</b>	<b>86,288</b>	<b>99,397</b>	<b>197,507</b>	<b>x</b>
<b>TOTAL 31/12/2016</b>	<b>380,377</b>	<b>48</b>	<b>380,329</b>	<b>85,211</b>	<b>124,057</b>	<b>x</b>	<b>171,061</b>



## **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	31/12/2017	31/12/2016
1 Financial assets held for trading	779	-	-	779	3,741
2 Financial assets available for sale	15,530	-	-	15,530	34,982
3 Financial assets held to maturity	17,291	-	-	17,291	14,615
4 Due from banks	59,528	10,480	-	70,008	82,337
5 Loans to customers	219	25,709	-	25,928	28,788
6 Financial assets at fair value	240	-	-	240	1,489
7 Hedging derivatives	X	X	-	-	35
8 Other assets	X	X	107,332	107,332	66,364
<b>TOTAL</b>	<b>93,446</b>	<b>36,189</b>	<b>107,332</b>	<b>237,108</b>	<b>232,350</b>

### 1.2 INTEREST AND SIMILAR INCOME: DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2017	31/12/2016
A. Positive differences on hedging transactions:	-	16,903
B. Negative differences on hedging transactions:	-	(16,868)
<b>C. BALANCE (A-B)</b>	<b>-</b>	<b>35</b>

### 1.3 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

It was not felt necessary to provide other information in addition to that reported in the previous tables.

#### 1.3.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

	31/12/2017	31/12/2016
1. Debt securities	-	-
2. Due from banks	721	844
3. Loans to mutual banks	728	699
4. Loans to customers	181	45
<b>TOTAL</b>	<b>1,630</b>	<b>1,588</b>

### 1.3.2 INTEREST INCOME FROM FINANCE LEASES

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

### 1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	DEBTS SECURITIES		OTHER TRANSACTIONS	31/12/2017	31/12/2016
1. Due to central banks	-	X	-	-	(3,657)
2. Due to banks	(16,293)	X	-	(16,293)	(19,668)
3. Due to customers	(12)	X	-	(12)	(79)
4. Securities issued	X	(99,576)	-	(99,576)	(109,975)
5. Financial liabilities held for trading	(3,572)	-	-	(3,572)	(564)
6. Financial liabilities carried at fair value	-	-	-	-	(5,643)
7. Other liabilities and provisions	X	X	(75,435)	(75,435)	(42,541)
8. Hedging derivatives	X	X	(4,637)	(4,637)	-
<b>TOTAL</b>	<b>(19,877)</b>	<b>(99,576)</b>	<b>(80,073)</b>	<b>(199,526)</b>	<b>(182,127)</b>

### 1.5 INTEREST AND SIMILAR EXPENSE: DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2017	31/12/2016
A. Positive differences on hedging transactions:	13,892	-
B. Negative differences on hedging transactions:	(18,529)	-
<b>C. Balance (A-B)</b>	<b>(4,637)</b>	<b>-</b>

### 1.6 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

It was not felt necessary to provide other information in addition to that reported in the previous tables.

#### 1.6.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

	31/12/2017	31/12/2016
1. Due to banks	(788)	(468)
2. Due to mutual banks	(1,110)	(755)
<b>TOTAL</b>	<b>(1,898)</b>	<b>(1,223)</b>

#### 1.6.2 INTEREST EXPENSE ON LIABILITIES IN RESPECT OF FINANCE LEASES

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



## 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

	31/12/2017	31/12/2016
<b>a) guarantees issued</b>	<b>102</b>	<b>160</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and advisory services:</b>	<b>18,794</b>	<b>23,296</b>
1. trading in financial instruments	6,502	7,996
2. foreign exchange	239	197
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	7,272	7,991
5. depository services	-	-
6. securities placement	2,236	2,894
7. order collection and transmission	1,227	1,142
8. advisory services	1,318	3,076
8.1 concerning investments	-	-
8.2 concerning financial structure	1,318	3,076
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	-	-
<b>d) collection and payment services</b>	<b>46,600</b>	<b>46,122</b>
<b>e) servicing activities for securitizations</b>	-	-
<b>f) services for factoring transactions</b>	-	-
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) holding and management of current accounts</b>	<b>252</b>	<b>254</b>
<b>j) other services</b>	<b>320,889</b>	<b>294,446</b>
<b>TOTAL</b>	<b>386,638</b>	<b>364,278</b>

“Other services” mainly regard electronic money fees, which totaled about €302 million.

## 2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

	31/12/2017	31/12/2016
<b>a) own branches:</b>	<b>2,236</b>	<b>2,894</b>
1. asset management	-	-
2. securities placement	2,236	2,894
3. third-party services and products	-	-
<b>b) off-premises distribution:</b>	<b>-</b>	<b>-</b>
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-
<b>c) other distribution channels:</b>	<b>-</b>	<b>-</b>
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

## 2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	31/12/2017	31/12/2016
<b>a) guarantees received</b>	<b>(2)</b>	<b>(2)</b>
<b>b) credit derivatives</b>	<b>-</b>	<b>-</b>
<b>c) management and intermediation services:</b>	<b>(7,276)</b>	<b>(8,089)</b>
1. trading in financial instruments	(1,342)	(1,295)
2. foreign exchange	(44)	(56)
3. asset management:		
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(4,007)	(4,186)
5. placement of financial instruments	(1,883)	(2,552)
6. off-premises distribution of securities, products and services	-	-
<b>d) collection and payment services</b>	<b>(5,805)</b>	<b>(5,800)</b>
<b>e) other services</b>	<b>(238,617)</b>	<b>(222,914)</b>
<b>TOTAL</b>	<b>(251,700)</b>	<b>(236,805)</b>

“Other services” mainly regard electronic money fees, which totaled about €234 million.

## 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

	31/12/2017		31/12/2016	
	DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS
A. Financial assets held for trading	139	-	27	-
B. Financial assets available for sale	1,912	-	1,907	-
C. Financial assets at fair value	-	-	-	-
D. Equity investments	23,190	X	20,843	X
<b>TOTAL</b>	<b>25,241</b>	<b>-</b>	<b>22,778</b>	<b>-</b>

Dividends received mainly regard:

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

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

The item reports the overall difference in respect of:

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

### 4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	CAPITAL GAINS (A)	TRADING PROFITS (B)	CAPITAL LOSSES (C)	TRADING LOSSES (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
<b>1. Financial assets held for trading</b>	<b>10</b>	<b>13,733</b>	<b>(14)</b>	<b>(2,508)</b>	<b>11,222</b>
1.1 Debt securities	-	12,638	-	(2,238)	10,399
1.2 Equity securities	10	995	(11)	(261)	732
1.3 Units in collective investment undertakings	0	97	(2)	(2)	93
1.4 Loans	-	-	-	-	-
1.5 Other	0	4	-	(7)	(3)
<b>2. Financial liabilities held for trading</b>	<b>114</b>	<b>-</b>	<b>(202)</b>	<b>-</b>	<b>(88)</b>
2.1 Debt securities	114	-	(202)	-	(88)
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>81,177</b>
<b>4. Derivatives</b>	<b>100,709</b>	<b>137,958</b>	<b>(96,280)</b>	<b>(143,535)</b>	<b>(76,774)</b>
4.1 Financial derivatives:	100,709	137,958	(96,280)	(143,535)	(76,774)
- on debt securities and interest rates	93,403	131,314	(93,354)	(132,247)	(885)
- on equity securities and equity indices	3,824	80	(11)	(4,838)	(945)
- on foreign currencies and gold	X	X	X	X	(75,626)
- other	3,482	6,564	(2,914)	(6,449)	682
4.2 Credit derivatives	-	-	-	-	-
<b>TOTAL</b>	<b>100,832</b>	<b>151,692</b>	<b>(96,495)</b>	<b>(146,043)</b>	<b>15,537</b>

## 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

	31/12/2017	31/12/2016
<b>A. Gain on:</b>		
A.1 Fair value hedges	9,852	8,225
A.2 Hedged financial assets (fair value)	9,648	38,438
A.3 Hedged financial liabilities (fair value)	-	12
A.4 Cash flow hedges	566	3,692
A.5 Assets and liabilities in foreign currencies	9,609	-
<b>TOTAL INCOME ON HEDGING ACTIVITIES (A)</b>	<b>29,675</b>	<b>50,367</b>
<b>B. Loss on:</b>		
B.1 Fair value hedges	(9,609)	(38,281)
B.2 Hedged financial assets (fair value)	(4,983)	(7,070)
B.3 Hedged financial liabilities (fair value)	(5,342)	(387)
B.4 Cash flow hedges	(11,137)	(83)
B.5 Assets and liabilities in foreign currencies	-	(2,974)
<b>TOTAL EXPENSE ON HEDGING ACTIVITIES (B)</b>	<b>(31,070)</b>	<b>(48,795)</b>
<b>C. NET GAIN (LOSS) ON HEDGING ACTIVITIES (A - B)</b>	<b>(1,395)</b>	<b>1,573</b>

The amounts regard the following transactions:

- hedges of Italian government BTPs, both fixed rate and inflation-indexed, using asset swaps;
- hedges of 4 bonds issued by the Bank using interest rate swaps and interest rate options;
- hedges of 4 U.S. dollar bonds issued by the Bank using cross currency interest rate swaps;
- hedges of loan to BCC Solutions using interest rate swaps;
- hedges of treasury deposits using overnight indexed swaps;
- macro-hedges of portfolios of deposits using overnight indexed swaps;
- hedge of a corporate bond using an asset swap;
- hedge of a Banca IMI bond using an asset swap.

## SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or liabilities other than those held for trading or designated as at fair value.

### 6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	31/12/2017			31/12/2016		
	GAINS	LOSSES	NET GAIN (LOSS)	GAINS	LOSSES	NET GAIN (LOSS)
<b>Financial assets</b>						
1. Due from banks	10	(1)	9	106	(45)	61
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	49,475	(17,931)	31,544	129,480	(47,729)	81,751
3.1 Debt securities	38,304	(17,931)	20,373	83,654	(47,729)	35,925
3.2 Equity securities	10,174	-	10,174	45,826	-	45,826
3.3 Units in collective investment undertakings	996	-	996	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	56,095	(14)	56,081	-	-	-
<b>TOTAL ASSETS</b>	<b>105,580</b>	<b>(17,945)</b>	<b>87,635</b>	<b>129,586</b>	<b>(47,774)</b>	<b>81,812</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	597	(2,434)	(1,837)	433	(4,104)	(3,671)
<b>TOTAL LIABILITIES</b>	<b>597</b>	<b>(2,434)</b>	<b>(1,837)</b>	<b>433</b>	<b>(4,104)</b>	<b>(3,671)</b>

The gain on the disposal of equity securities regards the sale of shares in Visa Inc. and Cattolica, while the contribution of the disposal of the HTM portfolio was even larger.

## 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. The capital gain regards a credit-linked note on which the fair value option was exercised in order to avoid separating the debt component of the credit.

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

	CAPITAL GAINS (A)	PROFITS ON REALIZATION (B)	CAPITAL LOSSES (C)	LOSSES ON REALIZATION (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
<b>1. Financial assets</b>	<b>1,072</b>	-		-	<b>1,072</b>
1.1 Debt securities	1,072	-	-	-	1,072
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	
<b>4. Financial and credit derivatives</b>	-	-			
<b>TOTAL AT 31/12/2017</b>	<b>1,072</b>			-	<b>1,072</b>

## 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)				31/12/2017	31/12/2016
	SPECIFIC								
	WRITEOFFS	OTHER	PORTFOLIO	SPECIFIC		PORTFOLIO			
				A	B	A	B		
<b>A. Due from banks</b>	-	-	-	-	-	-	-	-	
- Loans	-	-	-	-	-	-	-	-	
- Debt securities	-	-	-	-	-	-	-	-	
<b>B. Loans to customers:</b>	<b>(386)</b>	<b>(7,138)</b>	<b>(186)</b>	<b>118</b>	<b>1,788</b>	<b>-</b>	<b>179</b>	<b>(5,626)</b>	<b>4,650</b>
<i>Impaired receivables acquired</i>	-	-	-	-	-	-	-	-	
- Loans	-	-	-	-	-	-	-	-	
- Debt securities	-	-	-	-	-	-	-	-	
<i>Other receivables</i>	(386)	(7,138)	(186)	118	1,788	-	179	(5,626)	4,650
- Loans	(12)	(7,138)	(186)	118	1,788	-	179	(5,252)	4,650
- Debt securities	(374)	-	-	-	-	-	-	(374)	-
<b>C. TOTAL</b>	<b>(386)</b>	<b>(7,138)</b>	<b>(186)</b>	<b>118</b>	<b>1,788</b>	<b>-</b>	<b>179</b>	<b>(5,626)</b>	<b>4,650</b>

Key:

A: Recoveries from interest

B: Other recoveries

“Recoveries on impairment” report writebacks associated with the passage of time, corresponding to the interest accrued during the period at the original effective interest rate previously used to calculate the writedown.



## 8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	LOSSES (1)		RECOVERIES (2)		TOTAL AT 31/12/2017	TOTAL AT 31/12/2016
	SPECIFIC		SPECIFIC			
	WRITEOFFS	OTHER	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(1,170)	-	-	(1,170)	(3,802)
C. Units in CIUs	-	(40,886)	-	-	(40,886)	(15,331)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. TOTAL</b>	-	<b>(42,056)</b>	-	-	<b>(42,056)</b>	<b>(19,133)</b>

The figure for units in CIUs includes €18.7 million in respect of the Securis funds and €22.1 million for Fondo Atlante. The figure for equity securities regards the interest in the finance company BCC Friuli Venezia Giulia.

## 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

	LOSSES (1)		RECOVERIES (2)				31/12/2017	31/12/2016		
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO				
	WRITEOFFS	OTHER		A	B				A	B
A. Guarantees issued	-	-	-	-	-	-	-			
B. Credit derivatives	-	-	-	-	-	-	-			
C. Commitments to disburse funds	-	-	-	-	-	-	-			
D. Others	(20)	(1,853)	-	4	-	(1,869)	(2,622)			
<b>E. TOTAL</b>	<b>(20)</b>	<b>(1,853)</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>(1,869)</b>	<b>(2,622)</b>			

"Losses" reports amounts associated with the mutual bank deposit guarantee fund for the division and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

## SECTION 9 - ADMINISTRATIVE EXPENSES – ITEM 150

In addition to expenses in respect of employees, personnel expenses include:

- expenses for Bank employees seconded to other companies and the related recovery of costs;
- expenses in respect of persons hired on atypical contracts;
- reimbursements of expenses for employees of other companies seconded to the Bank;
- the compensation of directors and members of the Board of Auditors.

### 9.1 PERSONNEL EXPENSES: COMPOSITION

	31/12/2017	31/12/2016
<b>1) Employees</b>	<b>(78,439)</b>	<b>(91,225)</b>
a) wages and salaries	(55,276)	(53,180)
b) social security contributions	(14,855)	(14,121)
c) termination benefits	(922)	(1,232)
d) pensions	-	-
e) allocation to employee termination benefit provision	(194)	(275)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(4,240)	(4,599)
- defined contribution	(4,240)	(4,599)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(2,952)	(17,818)
<b>2) Other personnel</b>	<b>(165)</b>	<b>(152)</b>
<b>3) Board of Directors and members of Board of Auditors</b>	<b>(1,966)</b>	<b>(1,807)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>5) Recovery of expenses for employees seconded to other companies</b>	<b>6,289</b>	<b>5,295</b>
<b>6) Reimbursement of expenses for third-party employees seconded to the Company</b>	<b>(5,340)</b>	<b>(4,698)</b>
<b>TOTAL</b>	<b>(79,621)</b>	<b>(92,587)</b>

The decrease mainly reflects the impact of human resource measures taken in 2016.

### 9.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	31/12/2017	31/12/2016
<b>Employees:</b>	<b>887</b>	<b>812</b>
a) senior management	35	43
b) middle management	447	398
c) other employees	405	372
<b>Other personnel</b>	<b>5</b>	<b>11</b>

### 9.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS

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

## 9.4 OTHER EMPLOYEE BENEFITS

The item “other employee benefits” mainly includes benefits such as lunch vouchers, insurance policies, training courses and costs for early termination measures.

## 9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	31/12/2017	31/12/2016
<b>Information technology</b>	<b>(77,893)</b>	<b>(79,284)</b>
<b>Property and movables</b>	<b>(21,404)</b>	<b>(16,593)</b>
Rental and fees	(21,404)	(16,593)
Cleaning	-	-
Security	-	-
<b>Goods and services</b>	<b>(10,468)</b>	<b>(12,437)</b>
Telephone and data transmission	(5,034)	(4,510)
Postal	(3,956)	(4,824)
Valuables transport and counting	(69)	(1,264)
Electricity, heating and water	(367)	(492)
Transportation	(804)	(982)
Office supplies and printed materials	(237)	(365)
Subscriptions, magazines and newspapers	-	-
<b>Professional services</b>	<b>(16,986)</b>	<b>(22,922)</b>
Professional fees	(9,758)	(12,681)
Audit fees	(551)	(555)
Legal and notary costs	(1,896)	(2,155)
Court costs, information and title searches	-	(1)
Insurance	(511)	(908)
Administrative services	(4,269)	(6,622)
<b>Advertising and entertainment</b>	<b>(5,727)</b>	<b>(4,730)</b>
<b>Association dues</b>	<b>(4,427)</b>	<b>(4,309)</b>
<b>Charity</b>	<b>-</b>	<b>-</b>
<b>Other</b>	<b>(22,212)</b>	<b>(1,850)</b>
<b>Indirect taxes and duties</b>	<b>(33,710)</b>	<b>(69,170)</b>
Stamp duty	(14,332)	(13,741)
Long-term loan tax - Pres. Decree 601/73	-	-
Duties on stock exchange contracts	(19)	(9)
Other indirect taxes and duties	(19,359)	(55,420)
<b>TOTAL</b>	<b>(192,827)</b>	<b>(211,295)</b>

Other administrative expenses include the costs associated with the establishment of the Mutual Banking Group in the amount of about €20 million, offset by a reduction in costs in respect of Resolution Fund contributions of about €35 million.

During the year, the Bank supported charity initiatives in the total amount of €294 thousand.

## 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

	31/12/2017	31/12/2016
<b>Net provisions for risks and charges</b>	<b>3,036</b>	<b>7,147</b>

## 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)
<b>A. Property and equipment</b>				
A.1 owned	(3,829)	-	-	(3,829)
- operating assets	(3,829)	-	-	(3,829)
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
<b>TOTAL</b>	<b>(3,829)</b>	<b>-</b>	<b>-</b>	<b>(3,829)</b>

## 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)
<b>A. Intangible assets</b>	<b>(5,131)</b>	-	-	<b>(5,131)</b>
A.1 owned	(5,131)	-	-	(5,131)
- generated internally by the Bank	-	-	-	-
- other	(5,131)	-	-	(5,131)
A.2 acquired under finance leases	-	-	-	-
<b>TOTAL</b>	<b>(5,131)</b>	-	-	<b>(5,131)</b>

## 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

	31/12/2017	31/12/2016
Other charges	(208)	118
<b>Total</b>	<b>(208)</b>	<b>118</b>

### 13.2 OTHER OPERATING INCOME: COMPOSITION

	31/12/2017	31/12/2016
Property rental income	-	-
Recoveries:	-	-
- Stamp duty	11,534	10,730
- Tax on loan transactions	56	34
Revenues from Milano Finanza Web services	1,639	462
Revenues for personnel administration services	571	629
Insourcing revenues	8,673	7,419
Other income	6,099	10,237
<b>TOTAL</b>	<b>28,572</b>	<b>29,511</b>

**SECTION 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 210****14.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION**

	31/12/2017	31/12/2016
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	(3,082)	(1,960)
1. Writedowns	-	-
2. Impairment losses	(3,082)	(1,960)
3. Losses on disposal	-	-
4. Other expenses	-	-
<b>Net result</b>	<b>(3,082)</b>	<b>(1,960)</b>

The amount reflects the coverage of the losses of the investees Ventis Srl of €2 million and M-Facility of about €0.2 million; an impairment loss of €0.9 million was also recognized in respect of Banca Sviluppo.

**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

	31/12/2017	31/12/2016
1. Current taxes (-)	9,746	(2,056)
2. Changes in current taxes from previous periods (+/-)	532	2,796
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 (+/-)	(2,801)	16,989
5. Change in deferred tax liabilities (+/-)	1,144	1,144
<b>6. INCOME TAXES FOR THE PERIOD (-) (-1+/-2+3+3 bis+/-4+/-5)</b>	<b>8,621</b>	<b>18,873</b>

### 18.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

	IRES		IRAP	
	TAXABLE INCOME	TAX	TAXABLE INCOME	TAX
<b>Net profit (loss) for the period before tax</b>	<b>(3,870)</b>	-	-	-
<b>Theoretical tax liability (27.5%)</b>	-	<b>(929)</b>	-	-
<b>Difference between value of production and production costs</b>	-	-	<b>98,753</b>	-
<b>Theoretical tax liability (5.57%)</b>	-	-	-	<b>5,501</b>
Temporary differences taxable in subsequent periods	-	-	-	-
Temporary differences deductible in subsequent periods	3,083	740	-	-
<i>Reversal of temporary differences of previous periods</i>	-	-	-	-
Reversal of deductible temporary differences	(8,156)	(1,957)	(54)	(3)
Reversal of taxable temporary differences	4,275	1,026	-	-
<i>Differences that will not reverse in subsequent years:</i>	-	-	-	-
Permanent decreases in taxable income	(51,022)	(12,245)	(76,203)	(4,245)
Permanent increases in taxable income	7,036	1,689	12,169	678
<b>Taxable income</b>	<b>(48,654)</b>	-	-	-
<b>Current income taxes</b>	-	<b>(11,676)</b>	-	-
<b>Taxable income for IRAP purposes</b>	-	-	<b>34,665</b>	-
<b>Current IRAP liability</b>	-	-	-	<b>1,931</b>

## **SECTION 19 - PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 280**

This item reports the positive or negative balance of income (interest, fees and commissions, etc.) and charges (interest expense, etc.) in respect of groups of assets and liabilities (disposal groups) held for sale, net of current and deferred taxation.

### **19.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION**

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

### **19.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE**

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

## **SECTION 20 – OTHER INFORMATION**

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

## **SECTION 21 – EARNINGS PER SHARE**

### **21.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL**

This section is not completed in these notes to the financial statements. Please see the corresponding section of the notes to the consolidated financial statements.



## **PART D**

### Comprehensive income



## DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

	GROSS AMOUNT	INCOME TAXES	NET AMOUNT
<b>10. Net profit (loss) for the period</b>	X	X	4,751,176
Other comprehensive income not recyclable to profit or loss			-
<b>20. Property and equipment</b>	-	-	-
<b>30. Intangible assets</b>	-	-	-
<b>40. Defined-benefit plans</b>	13,768	(3,786)	9,982
<b>50. Non-current assets held for sale</b>	-	-	-
<b>60. Valuation reserves of equity investments accounted for with equity method</b>	-	-	-
Other comprehensive income recyclable to profit or loss			-
<b>70. Hedging of investments in foreign operations:</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
c) other changes	-	-	-
<b>80. Foreign exchange differences:</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
c) other changes	-	-	-
<b>90. Cash flow hedges:</b>	1,981,329	(655,225)	1,326,103
a) fair value changes	(5,480,557)	1,812,420	(3,668,137)
b) reversal to income statement	7,461,886	(2,467,646)	4,994,240
c) other changes	-	-	-
<b>100. Financial assets available for sale:</b>	(1,719,986)	(31,142)	(1,751,129)
a) fair value changes	11,405,970	(3,123,026)	8,282,944
b) reversal to income statement	(13,125,956)	3,091,884	(10,034,072)
- impairment adjustments	-	-	-
- gain/loss on realization	(13,125,956)	3,091,884	(10,034,072)
c) other changes	-	-	-
<b>110. Non-current assets held for sale:</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
c) other changes	-	-	-
<b>120. Valuation reserves of equity investments accounted for with equity method (pro rata):</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
- impairment adjustments	-	-	-
- gain/loss on realization	-	-	-
c) other changes	-	-	-
<b>130. Total other comprehensive income</b>	275,111	(690,154)	(415,044)
<b>140 Comprehensive income (item 10+130)</b>	X	X	4,336,133



## **PART E**

### Risk and risk management policies



## INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

### ORGANIZATION OF RISK MANAGEMENT

The risk management function is based on the CRO area, which is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the CRO area, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

### STRUCTURE OF THE CRO AREA

During 2017, consistent with developments in the corporate governance project and with a view to implementing the organizational measures associated with the adoption of a governance model for the Risk Management function centralized within the CRO area of the Parent Company, for all of the Group's banks and financial companies, an evolutionary reorganization of the Group Risk Management department was completed. The reorganization was carried out in such a way so as to ensure that the individual Risk Management units in the various companies continue to report directly to the boards of directors of each subsidiary.

In this context and in consideration of the needs that have arisen in relation to the implementing measures associated with the reform of the mutual banking system, the main lines of development underpinning that reorganization concerned:

- the transformation of the Parent Company into a bank through the merger of Iccrea Holding and Iccrea Banca, which from a forward-looking perspective made it necessary to structure strong credit risk management arrangements within the Parent Company, which had already existed at the Group level but were organizationally distributed among the subsidiaries whose core business was lending;
- the start of work on the project to create the new Mutual Banking Group (MBG), with the significant involvement of the Risk Management department, giving rise to:
  - the need to implement an organizational structure to support the planning activity itself, with the incorporation of targeted organizational development measures, with a view to streamlining arrangements;
  - the need to create the conditions for the multi-tasking phase of the project, making it essential to introduce greater organizational flexibility in order to maximize the individual contribution of the senior staff of the unit;
  - the need to ensure that organizational evolution was temporary, designed to remain in place for a period limited to some 12-18 months: the organizational structure and the internal organization (roles and responsibilities of personnel) of the Risk Management function of the new Mutual Banking Group will only be determined at the end of the project;
  - the need to implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation. A special emphasis was placed on relations with the supervisory authorities, which in the transition phase will certainly focus specific attention on the continuing compliance of the Iccrea Banking

Group with regulatory requirements while the project is being developed and on the requirements for the formation and authorization of the new MBG;

- the desire to retain the governance arrangements of the CRO area, with functional responsibility centralized with the Parent Company and the distribution of local units with the subsidiaries and the need to maximize the contribution of all senior staff, including those who joined the Group most recently.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved the following organizational measures:

- the retention of functional responsibility for the Risk Management function with the Parent Company. More specifically the Risk Manager position at the Parent Company was assigned to the CRO, while at the individual companies that role is filled by the Heads of the Risk Management units of the subsidiaries, who continue to report functionally to the CRO area, consistent with the operational characteristics of those companies, and to the Board of the subsidiary to which they belong;
- the shifting of the Bank Risk unit to reporting directly to the CRO, as a natural development of risk management arrangements in order to strengthen the reform project under way;
- the rationalization of the risk management arrangements of Iccrea Bancalmpresa, which continues to report functionally to the Credit Risk Management unit of Iccrea Banca, which is in turn organized into two units:
  - Models and Risk Policy;
  - Risk Analysis and Monitoring.
- the creation of a specific unit for operating continuity with the assignment of the functional role of BCMS.

Following the above reorganization, the CRO area is organized into five units:

- Risk Integration & Capital Adequacy;
- Bank Risk;
- Financial Risk Management;
- Credit Risk Management;
- Operational & IT Risk Management.

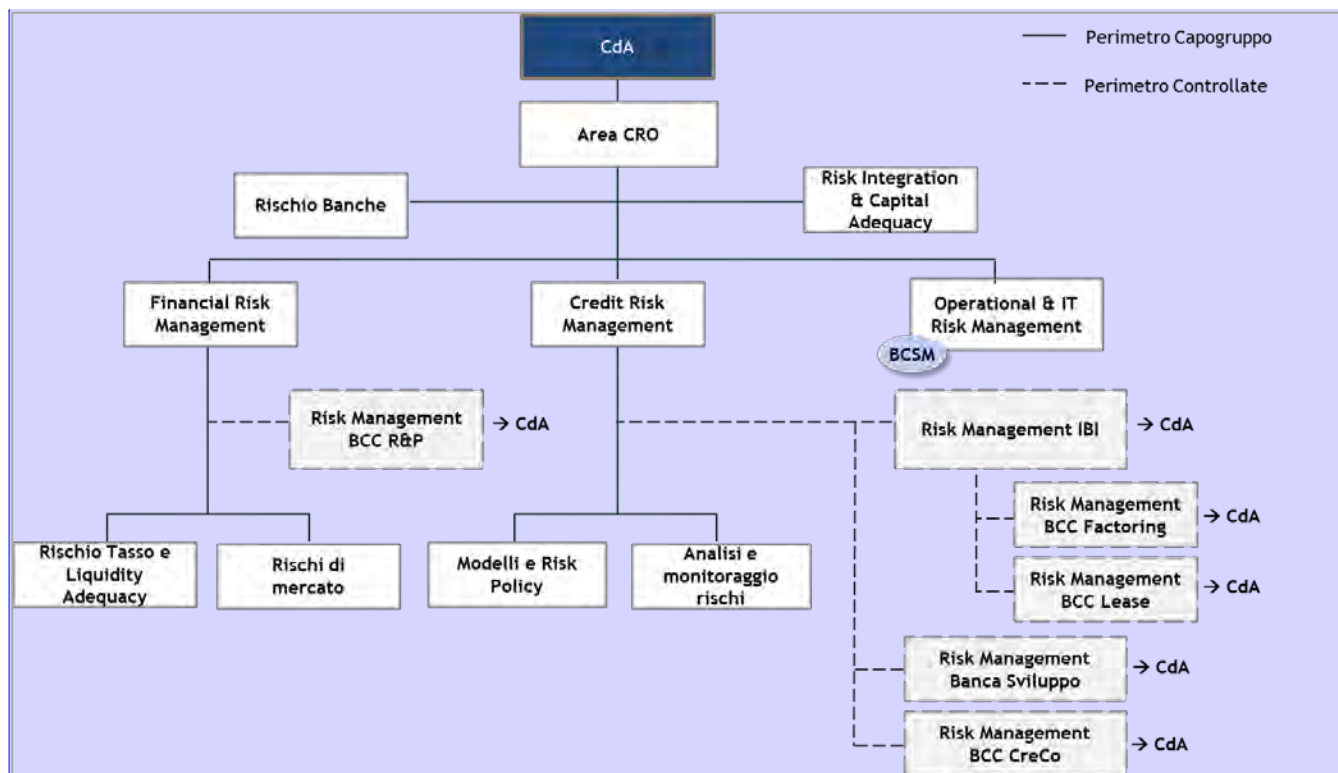
Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the CRO area on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business. More specifically:

- the Risk Management units of the subsidiaries report functionally to:
  - the Credit Risk Management unit of the Parent Company for Iccrea Bancalmpresa SpA, Banca Sviluppo SpA and BCC Credito Consumo SpA;
  - the Financial Risk Management unit of the Parent Company for BCC Risparmio e Previdenza SGRpA.;
  - the Risk Management unit of Iccrea Bancalmpresa for BCC Factoring and BCC Lease.

The Operational & IT Risk Management unit operates as a specialized hub for the entire Group, with responsibility for providing guidance and technical support to the risk management units of all Group companies in the area of operational and IT risks.

The following chart sets out the organizational structure of the CRO area as at December 31, 2017.





[GLC1]

### MAIN DUTIES OF THE CRO AREA

The responsibilities of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities. In supporting the operations of the Iccrea Banking Group, the CRO area:

- participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP;
- the risk assumption and management framework is composed of:
  - organizational arrangements and corporate processes (operational, administrative and business), including line controls;
  - support applications;
  - risk governance policies (policies, limits and delegated powers);
  - methodologies;
  - risk measurement and assessment criteria;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:

- develops risk measurement and assessment methods and models;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;
  - identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
  - identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
  - assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

### *THE RISK CULTURE*

The ICCREA Banking Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Iccrea Banking Group. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

### **RISK MANAGEMENT STRATEGIES AND PROCESSES**

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- **Risk identification (knowledge):** this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- **Assessment/measurement of the identified risks (awareness):** this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).
- **Risk prevention and attenuation (strategy):** this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
- **Monitoring and reporting (tracking and control):** this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).
- **Risk management and mitigation (reaction and proactivity):** this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

## SECTION 1 – CREDIT RISK

### QUALITATIVE DISCLOSURES

#### GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

### CREDIT RISK MANAGEMENT POLICIES

#### 1.1 ORGANIZATIONAL ASPECTS

The organizational unit of Iccrea Banca responsible for assuming and managing credit risk is the Loans department, which is responsible for developing – in conformity with the strategic objectives of the Bank – the operational plans for lending activities. In addition, it also manages – within the scope of its operational responsibilities - lending activities for the purpose of granting loans and operating credit in support of the operations of the various business lines as well as relations with correspondents abroad. It also plays a role, in coordination with the Risk Management unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and loans to bank counterparties. In addition, it manages exposures classified as impaired past due/overlimit or unlikely to be repaid, as well as registering/controlling loan positions in the information system.

In general, the Loans department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

Within the CRO area, the Credit Risk Management unit and the Bank Risk unit manage exposures in respect of customers (retail e corporate), banks and other financial intermediaries respectively managing monitoring systems and models for the assessment of bank creditworthiness and developing policy recommendations with regard to

the assumption and management of risk. They are also responsible for second-level control of the risks assigned to them.

More specifically, the units are 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. They also produce independent reporting on such risks, participating in updating and developing rules governing credit risk, with particular regard to delegated powers and operational limits.

In order to manage credit risk, credit exposure is segmented into portfolios on the basis of the type of loan/credit facility and type of counterparty (mutual banks, other banks, ordinary customers).

Further segmentation is carried out within each customer segment on the basis of the technical form (current account overdrafts, loans, etc.) and maturity (short, medium and long term).

The credit process is organized into the following phases:

- Start of application processing: collection of data need to start the lending/loan revision process with a specific counterparty;
- Processing: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- Decision proposal: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- Authorization: approval of the decision by the decision-making body and start of authorized operations;
- Monitoring: tracking of specific performance indicators (performance controls) and structural assessment of the overall risk profile of the borrower (performance monitoring).

## 1.2 MANAGEMENT, MEASUREMENT AND CONTROL SYSTEMS

### *IDENTIFICATION OF RISKS*

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized for accounting purposes.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral). A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of Iccrea Banca are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

## MEASUREMENT AND VALUATION OF RISKS

For the purpose of calculating prudential requirements for credit risk, the Iccrea Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the CRO area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control units of the Group companies to agree methodological issues where appropriate.

The assessment framework is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "modules", called Structural and Performance. The assessment of counterparty creditworthiness begins with an analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A Risk Ceiling is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The Risk Ceiling takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite.

The Risk Ceiling is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the Risk Ceiling. Two warning thresholds are also specified, which if exceeded trigger the transmission of a report from Risk Management to the Loans department and/or senior management for corrective action and subsequent reporting to the Board of Directors.

## RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the Financial Institutions business line, the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The

application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.

### *MONITORING AND REPORTING*

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the CRO area.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

### **1.3 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. 285/2013, Part 2, Chapter 5).

Re-examination has begun of mortgage guarantees already acquired by the Bank covering existing real estate loans, and an electronic database containing their details is being prepared in order to enable for systematic monitoring of their value. A similar effort is being made for all lien security already acquired by the Bank.

Within the context of over-the counter derivative transactions, Iccrea Banca uses a "close-out netting" mechanism with mutual banks providing for the right to terminate pending relationships immediately with the offsetting of reciprocal positions and payment of the net balance in the event of the counterparty's default or bankruptcy. This netting technique is also used for the purposes of calculating capital requirements, in accordance with prudential supervision regulations (see EU Regulation no. 575/2013, Title II, Part 3, Chapter 6, Section 7, Article 296).

In compliance with the provisions of law governing the cancellation of mortgages on extinguished mortgage loans, the Loans Technical Secretariat uses electronic systems for operating with the government office responsible for cancelling encumbrances in respect of repaid loans.

In order to mitigate the credit risk associated with trading in financial derivative instruments with bank counterparties (counterparty risk), Iccrea Banca uses bilateral netting arrangements that in the event of counterparty default enable offsetting of creditor and debtor positions in financial derivatives transactions, as well as for securities financing transactions (SFTs).

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, as at December 29, 2017, for the purpose of mitigating counterparty risk we used both the clearing services of LCH and bilateral netting arrangements (such as ISDA and/or Framework Agreements) for financial instruments and types of market counterparty currently not covered by LCH. The Bank also continues to enter into Credit Support Annex (CSA) arrangements. At December 29, 2017 there were 223 margin agreements (CSAs) outstanding, of which 82 with market counterparties and 141 with mutual bank industry counterparties.

As for repos, 11 GMRAs were entered into, of which 10 are active and operational with three counterparties.

## 1.4 IMPAIRED FINANCIAL ASSETS

### *PROCEDURES FOR CLASSIFYING ASSETS BY DEBTOR QUALITY*

The Bank is equipped with regulatory/IT structures and procedures for loan management, classification and control.

In line with the provisions of the IASs/IFRSs, at every reporting date the presence of objective evidence of impairment is assessed for every instrument or group of financial instruments.

Objective evidence of the impairment of a financial asset or group of financial assets consists of observable data regarding the following events:

- significant financial difficulties of the debtor;
- breach of contractual agreements, such as default or delinquency in paying interest or principal;
- the lender, for economic or legal reasons associated with the borrower's financial difficulties, grants the debtor concessions that the lender would not otherwise have considered;
- a high probability of the debtor's entering bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset as a result of the debtor's financial difficulties (a case not relevant for the current types of loans to banks/customers);
- the existence of evidence indicating a quantifiable decrease in estimated future cash flows for a group of assets, after initial recognition, even if such decrease cannot yet be ascribed to the individual position:
  - a reduction in the debtor's ability to discharge its liability in respect of the group of assets it holds;
  - international, national or local conditions that could give rise to default in respect of a group of receivables.

The above assessment is conducted with the support of special IT screening procedures on the basis of information from internal and external sources.



Within the scope of testing for the existence of objective evidence of impairment, non-performing loans are classified in the following categories:

- bad debts: loans to borrowers in a state of insolvency (even if bankruptcy has not been declared by a court) or in substantially equivalent situations, regardless of any expectations of loss formulated by the company;
- positions unlikely to be repaid: credit exposures other than bad debts to borrowers that the Bank believes are unlikely to discharge their credit obligations in full (principal and/or interest) without recourse to actions such as enforcement of guarantees;
- impaired past due/overlimit exposures: exposures other than bad debts or positions likely to be unpaid that as of the reporting date are past due/overlimit by more than 90 days and exceed a specified materiality threshold.

#### *FORBORNE EXPOSURES*

An additional classification is made for credit exposures that have been granted some form of forbearance, which are divided into:

- non-performing exposures with forbearance measures: depending on the circumstances, these represent a subset of bad debts, positions unlikely to be repaid or impaired past due/overlimit exposures; they do not represent a separate category of impaired assets;
- other exposures with forbearance measures, which correspond to forborne performing exposures and are therefore classified under performing exposures.

#### *FACTORS ENABLING RECLASSIFICATION OF IMPAIRED EXPOSURES TO PERFORMING STATUS*

Only the return to full solvency of the debtor permits restoration of performing status. This comprises:

- elimination of the entire exposure or repayment of arrears;
- regularization of the exposure.

#### *ASSESSMENT OF THE ADEQUACY OF WRITEDOWNS*

Loans are recognized at estimated realizable value. This value is obtained by deducting specific and general writedowns of principal and interest, net of any repayments, from the total amount disbursed.

Calculation of expected loss is based on analytical and statistical methodologies. The latter are used for personal loans classified as bad debts and for calculating normal risk.

The analytical assessment of non-performing positions is based on standard criteria approved by the Board of Directors that incorporate prudential assessments of any guarantees securing repayment.

In particular, impaired exposures are analytically evaluated on the basis of:

- forecast of future recovery of the credit position – with the exclusion of future losses that have not yet emerged – using different procedures depending on the type of loan:
  - for personal loans classified as bad debts the recovery forecast is determined using a statistical method based on stratification based on the age of the position, considering amounts collected and losses on past cases from which, with appropriate calculations, an estimated loss percentage can be determined for application to the entire existing portfolio;
  - for other loans, general writedowns based on statistical techniques that, using the values calculated for rates of default and non-recoverability, contribute to the calculation of a prudential coverage ratio;

- recovery times;
- expected realization of any guarantees, taking account of estimated collection/liquidation expenses, which must be incorporated into the expected future cash flows.

The writedown is recognized in the income statement as the difference between the initial carrying amount of the asset and the present value of the estimated recoverable cash flows, discounted at the original effective interest rate of the financial asset at the moment of classification as non-performing.

The original value of the receivable is written back in subsequent years if the reasons for the writedown no longer obtain.

## QUANTITATIVE DISCLOSURES

### A. CREDIT QUALITY

#### A.1 IMPAIRED AND UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

##### A.1.1 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	BAD DEBTS	UNLIKELY TO BE REPAID	IMPAIRED PAST DUE EXPOSURES	UNIMPAIRED PAST DUE POSITIONS	OTHER UNIMPAIRED POSITIONS	TOTAL
1. Financial assets available for sale	-	-	-	-	3,019,135	3,019,135
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	24,560,756	24,560,756
4. Loans to customers	16,618	1,541	3	1,232	5,965,843	5,985,237
5. Financial assets at fair value	-	-	-	-	15,630	15,630
6. Financial assets held for sale	-	-	-	-	-	-
<b>31/12/2017</b>	<b>16,618</b>	<b>1,541</b>	<b>3</b>	<b>1,232</b>	<b>33,561,364</b>	<b>33,580,758</b>
<b>31/12/2016</b>	<b>18,478</b>	<b>1,400</b>	<b>76</b>	<b>1,569</b>	<b>41,926,167</b>	<b>41,947,690</b>

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

	IMPAIRED ASSETS			UNIMPAIRED ASSETS			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	
1. Financial assets available for sale	-	-	-	3,019,135	-	3,019,135	3,019,135
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	24,560,756	-	24,560,756	24,560,756
4. Loans to customers	57,753	39,591	18,162	5,967,850	775	5,967,075	5,985,237
5. Financial assets at fair value	-	-	-	-	-	15,630	15,630
6. Financial assets held for sale	-	-	-	-	-	-	-
<b>31/12/2017</b>	<b>57,753</b>	<b>39,591</b>	<b>18,162</b>	<b>33,547,741</b>	<b>775</b>	<b>33,562,596</b>	<b>33,580,758</b>
<b>31/12/2016</b>	<b>56,519</b>	<b>36,564</b>	<b>19,955</b>	<b>41,913,944</b>	<b>768</b>	<b>41,927,735</b>	<b>41,947,690</b>

	ASSETS WITH EVIDENTLY POOR CREDIT QUALITY		OTHER ASSETS
	CUMULATIVE LOSSES	NET EXPOSURE	NET EXPOSURE
1. Financial assets held for trading	-	-	315,814
2. Hedging derivatives	-	-	6,716
<b>31/12/2017</b>	-	-	<b>322,530</b>
<b>31/12/2016</b>	-	-	<b>434,997</b>

### A.1.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS VALUES, NET VALUES AND TIME PAST DUE

	GROSS EXPOSURE						SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS				
	UP TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR					
<b>A. ON-BALANCE-SHEET EXPOSURES</b>									
a) Bad debts	-	-	-	-	X	-	X	-	
- of which: forborne exposures	-	-	-	-	X	-	X	-	
b) Unlikely to be repaid	-	-	-	-	X	-	X	-	
- of which: forborne exposures	-	-	-	-	X	-	X	-	
c) Impaired past due exposures	-	-	-	-	X	-	X	-	
- of which: forborne exposures	-	-	-	-	X	-	X	-	
d) Unimpaired past due exposures	X	X	X	X	-	X	-	-	
- of which: forborne exposures	X	X	X	X	-	X	-	-	
e) Other unimpaired assets	X	X	X	X	24,614,259	X	-	24,614,259	
- of which: forborne exposures	X	X	X	X	-	X	-	-	
<b>TOTAL A 31/12/2017</b>	-	-	-	-	<b>24,614,259</b>	-	-	<b>24,614,259</b>	
<b>B. OFF-BALANCE-SHEET EXPOSURES</b>									
a) Impaired	-	-	-	-	X	-	X	-	
b) Unimpaired	X	X	X	X	418,542	X	-	418,542	
<b>TOTAL B 31/12/2017</b>	-	-	-	-	<b>418,542</b>	-	-	<b>418,542</b>	
<b>TOTAL A+B 31/12/2017</b>	-	-	-	-	<b>25,032,801</b>	-	-	<b>25,032,801</b>	

**A.1.4 ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS**

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

**A.1.4 BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY**

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

**A.1.5 ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN TOTAL ADJUSTMENTS OF LOANS**

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

## A.1.6 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS VALUES, NET VALUES AND TIME PAST DUE

	GROSS EXPOSURE							
	IMPAIRED ASSETS				UNIMPAIRED ASSETS	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	UP TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
<b>A. ON-BALANCE-SHEET EXPOSURES</b>								
a) Bad debts				56,063	X	39,445	X	16,618
- of which: forborne exposures	-	-	-	224	X	29	X	195
b) Unlikely to be repaid	234	103	758	592	X	146	X	1,541
- of which: forborne exposures	234	-	297	55	X	103	X	483
c) Impaired past due exposures	-	-	2	1	X	-	X	3
- of which: forborne exposures	-	-	-	-	X	-	X	
d) Unimpaired past due exposures	X	X	X	X	1,234	X	2	1,232
- of which: forborne exposures	X	X	X	X		X		
e) Other unimpaired exposures	X	X	X	X	8,959,508	X	773	8,958,736
- of which: forborne exposures	X	X	X	X	1,195	X	10	1,185
<b>TOTAL A 31/12/2017</b>	<b>234</b>	<b>103</b>	<b>760</b>	<b>56,656</b>	<b>8,960,742</b>	<b>39,591</b>	<b>775</b>	<b>8,978,130</b>
<b>B. OFF-BALANCE-SHEET EXPOSURES</b>								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	194,119	X	-	194,119
<b>TOTAL B 31/12/2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>194,119</b>	<b>-</b>	<b>-</b>	<b>194,119</b>
<b>TOTAL A+B 31/12/2017</b>	<b>234</b>	<b>103</b>	<b>760</b>	<b>56,656</b>	<b>9,154,861</b>	<b>39,591</b>	<b>775</b>	<b>9,172,249</b>

**A.1.7 ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS**

	BAD DEBTS	UNLIKELY TO BE REPAID	IMPAIRED PAST DUE EXPOSURES
<b>A. Opening gross exposure</b>	<b>54,932</b>	<b>1,510</b>	<b>77</b>
- of which: exposures assigned but not derecognized	-	-	-
<b>B. Increases</b>	<b>4,812</b>	<b>505</b>	<b>3</b>
B.1 from performing credit exposures	-	505	1
B.2 transfers from other categories of impaired positions	248	-	-
B.3 other increases	4,564	-	2
<b>C. Decreases</b>	<b>3,680</b>	<b>329</b>	<b>78</b>
C.1 to performing credit exposures	-	-	76
C.2 writeoffs	2,554	-	-
C.3 collections	1,126	81	2
C.4 assignments	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired positions	-	248	-
C.7 other decreases	-	-	-
<b>D. Closing gross exposure</b>	<b>56,063</b>	<b>1,687</b>	<b>3</b>
- of which: exposures assigned but not derecognized	-	-	-

**A.1.7 BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY**

	IMPAIRED FORBORNE EXPOSURES	UNIMPAIRED FORBORNE EXPOSURES
<b>A. Opening gross exposure</b>	<b>832</b>	<b>967</b>
- of which: exposures assigned but not derecognized	-	-
<b>B. Increases</b>	<b>-</b>	<b>538</b>
B.1 from performing credit exposures without forbearance	-	463
B.2 from performing credit exposures with forbearance	-	X
B.3 from impaired exposures with forbearance	X	-
B.4 other increases	-	75
<b>C. Decreases</b>	<b>22</b>	<b>310</b>
C.1 to performing credit exposures without forbearance	X	202
C.2 to performing credit exposures with forbearance	-	-
C.3 to impaired exposures with forbearance	X	-
C.4 writeoffs	-	-
C.5 collections	22	97
C.6 realization from disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	11
<b>D. Closing gross exposure</b>	<b>810</b>	<b>1,195</b>
- of which: exposures assigned but not derecognized	-	-

## A.1.8 ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN TOTAL ADJUSTMENTS OF LOANS

	BAD DEBTS		UNLIKELY TO BE REPAID		IMPAIRED PAST DUE EXPOSURES	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
<b>A. Total opening adjustments</b>	<b>36,453</b>	-	<b>110</b>	<b>99</b>	<b>1</b>	-
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
<b>B. Increases</b>	<b>6,742</b>	<b>29</b>	<b>45</b>	<b>7</b>	-	-
B.1 writedowns	6,739	27	45	7	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired positions	3	2	-	-	-	-
B.4 other increases	-	-	-	-	-	-
<b>C. Decreases</b>	<b>3,750</b>	-	<b>9</b>	<b>3</b>	<b>1</b>	-
C.1 writebacks from valuations	1,195	-	5	1	-	-
C.2 writebacks from collections	-	-	1	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	2,554	-	-	-	-	-
C.5 transfers to other categories of impaired positions	-	-	3	2	-	-
C.6 other decreases	-	-	-	-	1	-
<b>D. Total closing adjustments</b>	<b>39,445</b>	<b>29</b>	<b>146</b>	<b>103</b>	-	-
- of which: exposures assigned but not derecognized	-	-	-	-	-	-



## A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

### A.2.1 DISTRIBUTION OF ON-BALANCE-SHEET CREDIT EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES BY EXTERNAL RATING GRADES

	EXTERNAL RATING GRADES						NOT RATED	31/12/2017
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	BELOW B-		
<b>A. On-balance-sheet exposures</b>	<b>166,283</b>	<b>16,279</b>	<b>15,752,159</b>	<b>2,813</b>	<b>-</b>	<b>78</b>	<b>18,066,722</b>	<b>34,004,334</b>
<b>B. Derivatives</b>	<b>35,987</b>	<b>3,204</b>	<b>83,875</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,857</b>	<b>194,923</b>
B.1 Financial derivatives	35,987	3,204	83,875	-	-	-	56,857	179,923
B.2 Credit derivatives	-	-	-	-	-	-	15,000	15,000
<b>C. Guarantees issued</b>	<b>2,171</b>	<b>127</b>	<b>3,500</b>	<b>742</b>	<b>48</b>	<b>-</b>	<b>88,378</b>	<b>94,966</b>
<b>D. Commitment to disburse</b>	<b>335</b>	<b>-</b>	<b>160,471</b>	<b>1,385</b>	<b>-</b>	<b>10,660</b>	<b>150,818</b>	<b>323,669</b>
<b>E. Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,979</b>	<b>-</b>
<b>TOTAL</b>	<b>204,776</b>	<b>19,610</b>	<b>16,000,005</b>	<b>4,940</b>	<b>48</b>	<b>10,738</b>	<b>18,435,754</b>	<b>34,617,892</b>

The distribution of the exposures in the table shows the breakdown by rating grade of the borrowers referred to in the prudential regulations of the Bank of Italy. The information has been provided by the Fitch rating agency as the External Credit Assessment Institution (ECAI).

### A.2.2 DISTRIBUTION OF ON-BALANCE-SHEET EXPOSURES AND OFF-BALANCE-SHEET EXPOSURE BY INTERNAL RATING GRADES

The table has not been completed because at the reporting date use was made of external ratings.

## A.3 DISTRIBUTION OF SECURED EXPOSURES BY TYPE OF GUARANTEE

### A.3.1 SECURED CREDIT EXPOSURES TO BANKS

VALUE OF NET EXPOSURE	COLLATERAL (1)				UNSECURED GUARANTEES (2)							31/12/2017 (1)+(2)		
	PROPERTIES - MORTGAGES	PROPERTIES - FINANCE LEASES	SECURITIES	OTHER ASSETS	CREDIT DERIVATIVES				GUARANTEES					
					CLN	ALTRI DERIVATI			GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS		OTHER	
						GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS						
<b>1. Secured on-balance-sheet credit exposures:</b>														
1.1 fully secured	16,649,594	1,518	-	15,726,344	920,031	-	-	-	-	-	-	1,702	-	<b>16,649,595</b>
- of which: impaired	16,649,594	1,518	-	15,726,344	920,031	-	-	-	-	-	-	1,702	-	<b>16,649,595</b>
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Secured off-balance-sheet credit exposures:</b>														
2.1 fully secured	5,539	-	-	1,456	-	-	-	-	-	-	-	4,084	-	<b>5,540</b>
- of which: impaired	5,539	-	-	1,456	-	-	-	-	-	-	-	4,084	-	<b>5,540</b>
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-

### A.3.2 SECURED CREDIT EXPOSURES TO CUSTOMERS

VALUE OF NET EXPOSURE	COLLATERAL (1)				UNSECURED GUARANTEES (2)							31/12/2017 (1)+(2)		
	PROPERTIES - MORTGAGES	PROPERTIES - FINANCE LEASES	SECURITIES	OTHER ASSETS	CREDIT DERIVATIVES				GUARANTEES					
					CLN	OTHER DERIVATIVES			GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS		OTHER	
						GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS						
<b>1. Secured on-balance-sheet credit exposures:</b>														
1.1 fully secured	3,206,503	82,878	-	3,095,715	-	-	-	-	-	-	-	8	160	<b>3,178,761</b>
- of which: impaired	16,601	16,456	-	-	-	-	-	-	-	-	-	-	146	<b>16,602</b>
1.2 partially secured	1,578	1,058	-	-	-	-	-	-	-	-	-	-	-	<b>1,058</b>
- of which: impaired	316	316	-	-	-	-	-	-	-	-	-	-	-	<b>316</b>
<b>2. Secured off-balance-sheet credit exposures:</b>														
2.1 fully secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

### B.1 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR (CARRYING AMOUNT)

	GOVERNMENTS			OTHER GOVERNMENT AGENCIES			FINANCIAL COMPANIES			INSURANCE UNDERTAKINGS			NON-FINANCIAL COMPANIES			OTHER		
	NET EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE	SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS
<b>A. On-balance-sheet</b>																		
A.1 Bad debts	-	-	X	-	-	X	-	2,146	X	-	-	X	11,613	30,623	X	5,005	6,676	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	195	29	X
A.2 Unlikely to be repaid	-	-	X	-	-	X	-	-	X	-	-	X	430	101	X	1,111	45	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	430	101	X	53	3	X
A.3 Impaired past due exposures	-	-	X	-	-	X	-	-	X	-	-	X	4	-	X	-	-	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.4 Unimpaired exposures	2,901,049	X	-	2	X	-	5,785,141	X	355	61,686	X	40	143,669	X	103	68,420	X	277
- of which: forborne exposures	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	1,185	X	10
<b>Total A</b>	<b>2,901,049</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>5,785,141</b>	<b>2,146</b>	<b>355</b>	<b>61,686</b>	<b>-</b>	<b>40</b>	<b>155,716</b>	<b>30,724</b>	<b>103</b>	<b>74,536</b>	<b>6,721</b>	<b>277</b>
<b>B. Off-balance-sheet</b>																		
B.1 Bad debts	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	x
B.2 Unlikely to be repaid	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.4 Unimpaired exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.1 Bad debts	166,741	X	-	22	X	-	14,800	X	-	143	X	-	2,256	X	-	7,810	X	-
<b>Total B</b>	<b>166,741</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>14,800</b>	<b>-</b>	<b>-</b>	<b>143</b>	<b>-</b>	<b>-</b>	<b>2,256</b>	<b>-</b>	<b>-</b>	<b>7,810</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) al 31/12/2017</b>	<b>3,067,790</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>5,799,941</b>	<b>2,146</b>	<b>355</b>	<b>61,829</b>	<b>-</b>	<b>40</b>	<b>157,972</b>	<b>30,724</b>	<b>103</b>	<b>82,346</b>	<b>6,721</b>	<b>277</b>
<b>Total (A+B) al 31/12/2016</b>	<b>6,916,857</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>5,202,679</b>	<b>2,324</b>	<b>243</b>	<b>60,555</b>	<b>-</b>	<b>101</b>	<b>65,121</b>	<b>27,181</b>	<b>109</b>	<b>98,925</b>	<b>7,059</b>	<b>315</b>

## B.2 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS
<b>A. On-balance-sheet</b>										
A.1 Bad debts	16,618	37,341	-	-	-	2,103	-	-	-	-
A.2 Unlikely to be repaid	1,541	146	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	4	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	8,829,581	739	45,984	-	52,966	36	31,437	-	-	-
<b>Total A</b>	<b>8,847,744</b>	<b>38,226</b>	<b>45,984</b>	<b>-</b>	<b>52,966</b>	<b>2,139</b>	<b>31,437</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Off-balance-sheet</b>										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	172,921	-	18,295	-	363	-	-	-	193	-
<b>Total B</b>	<b>172,921</b>	<b>-</b>	<b>18,295</b>	<b>-</b>	<b>363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>193</b>	<b>-</b>
<b>Total (A+B) al 31/12/2017</b>	<b>9,020,665</b>	<b>38,226</b>	<b>64,279</b>	<b>-</b>	<b>53,329</b>	<b>2,139</b>	<b>31,437</b>	<b>-</b>	<b>193</b>	<b>-</b>
<b>Total (A+B) al 31/12/2016</b>	<b>12,273,663</b>	<b>35,035</b>	<b>58,933</b>	<b>-</b>	<b>11,508</b>	<b>2,297</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>-</b>

### B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	NET EXPOSURE	IUAL WRITEDOWNS	NET EXPOSURE	IUAL WRITEDOWNS	NET EXPOSURE	IUAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS
<b>A. On-balance-sheet</b>										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	24,302,478	-	299,791	-	8,616	-	2,131	-	1,242	-
<b>Total A</b>	<b>24,302,478</b>	<b>-</b>	<b>299,791</b>	<b>-</b>	<b>8,616</b>	<b>-</b>	<b>2,131</b>	<b>-</b>	<b>1,242</b>	<b>-</b>
<b>B. Off-balance-sheet</b>										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	352,884	-	53,242	-	-	-	2,265	-	4,802	-
<b>Total B</b>	<b>352,884</b>	<b>-</b>	<b>53,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,265</b>	<b>-</b>	<b>4,802</b>	<b>-</b>
<b>Total (A+B) al 31/12/2017</b>	<b>24,655,362</b>	<b>-</b>	<b>353,033</b>	<b>-</b>	<b>8,616</b>	<b>-</b>	<b>4,396</b>	<b>-</b>	<b>6,044</b>	<b>-</b>
<b>Total (A+B) al 31/12/2016</b>	<b>31,590,184</b>	<b>-</b>	<b>273,044</b>	<b>-</b>	<b>15,308</b>	<b>-</b>	<b>4,254</b>	<b>-</b>	<b>12,710</b>	<b>-</b>

### B.4 LARGE EXPOSURES

a) Carrying amount	38,542,257
b) Risk-weighted amount	1,212,207
c) Number of positions	36

## C. SECURITIZATIONS

### QUANTITATIVE DISCLOSURES

#### C.1 EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

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

#### C.2 EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	ON-BALANCE-SHEET EXPOSURES			GUARANTEES ISSUED			CREDIT LINES		
	SENIOR	MEZZANINE	JUNIOR	SENIOR	MEZZANINE	JUNIOR	SENIOR	MEZZANINE	JUNIOR
	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS	CARRYING AMOUNT WRITEDOWNS/WRITEBACKS
A.1 Lucrezia Securitization									
- bad debts	8,966	-	-	-	-	-	-	-	-
- other assets	108,000	-	-	-	-	-	-	-	-

The amount of bad debts regards three securities issued by the vehicle Lucrezia Securitization as part of the crisis resolution measures for:

- Banca Padovana and BCC Irpina
- Crediveneto
- BCC Teramo

The amount of other assets regards a loan to the vehicle Lucrezia Securitization srl for the purchase of non-performing exposures as part of the rescues of distressed mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina and BCC Agrobresciano), for which Iccrea Banca undertook to subscribe all of the corresponding notes.

#### C.3 INVOLVEMENT IN SPECIAL PURPOSE VEHICLES

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

#### C.4 NON-CONSOLIDATED SPECIAL PURPOSE VEHICLES

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

### C.5 SERVICER ACTIVITIES – OWN SECURITIZATIONS - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY VEHICLE

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

### D. DISCLOSURE ON NON-CONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SPECIAL PURPOSE ENTITIES FOR SECURITIZATIONS)

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

### E. DISPOSALS

#### A. FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED

### QUANTITATIVE DISCLOSURES

#### E.1 FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED: CARRYING AMOUNTS AND FULL VALUES

	FINANCIAL ASSETS HELD FOR TRADING			FINANCIAL ASSETS AT FAIR VALUE			FINANCIAL ASSETS AVAILABLE FOR SALE			FINANCIAL ASSETS HELD TO MATURITY			LOANS TO BANKS			LOANS TO CUSTOMERS			TOTAL		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2017	31/12/2016	
<b>A. On-balance-sheet assets</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,719,682
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,719,682
2. Equity securities	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	-
3. Units in collective investment undertakings	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-
<b>31/12/2017</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X
<i>of which: impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X
<b>31/12/2016</b>	61,035	-	-	-	-	-	3,058,257	-	-	1,600,390	-	-	-	-	-	-	-	-	-	-	4,719,682
<i>of which: impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X

Key:

A= Assigned financial assets fully recognized (carrying amount)

B= Assigned financial assets partially recognized (carrying amount)

C= Assigned financial assets fully derecognized (carrying amount)

**E.2 FINANCIAL LIABILITIES IN RESPECT OF FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED: CARRYING AMOUNTS**

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE	FINANCIAL ASSETS AVAILABLE FOR SALE	FINANCIAL ASSETS HELD TO MATURITY	LOANS TO BANKS	LOANS TO CUSTOMERS	TOTAL AT 31/12/2016
<b>1. Due to customers</b>	-	-	-	-	-	-	-
a) in respect of assets fully recognized	-	-	-	-	-	-	-
b) in respect of assets partially recognized	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	-	-	-	-	-
a) in respect of assets fully recognized	-	-	-	-	-	-	-
b) in respect of assets partially recognized	-	-	-	-	-	-	-
<b>31/12/2017</b>	-	-	-	-	-	-	-
<b>31/12/2016</b>	<b>61,166</b>	-	<b>3,059,199</b>	<b>1,620,371</b>	-	-	<b>4,740,736</b>

**E.3 DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON DIVESTED ASSETS: FAIR VALUE**

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

**B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF ONGOING INVOLVEMENT**

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

**E.4 COVERED BONDS**

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

**F. MODELS FOR MEASURING CREDIT RISK**

At the date of the financial statements, no internal models were used for measuring credit risk.



## SECTION 2 - MARKET RISKS

### 2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

#### QUALITATIVE DISCLOSURES

##### A. GENERAL ASPECTS

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS exchange;
- acting as a market maker and direct participant (for transmission of orders from mutual banks) on the Hi-MTF and EuroTLX multilateral trading systems;
- participating in the primary market for share and bond placements and in tenders and subscriptions of government securities;
- negotiating repurchase agreements on both OTC and regulated markets, and derivatives on regulated markets;
- structuring, executing and managing financial derivatives traded on unregulated markets, mainly to satisfy the specific needs of the Bank's customers;
- providing the mutual banks with investment services, trading on own account, order execution for customers, order reception and transmission, trading on behalf of third parties and the placement of financial instruments issued by the Bank and by third parties;
- providing the mutual banks with access to standing facilities with the ECB;
- management of liquidity and the short-term interest rate profile in respect of transactions on the interbank, foreign exchange and precious metals markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the context of operating powers, specific operational limits on trading positions that generate exposures to market risks have been established. These risks are mainly assumed in respect of domestic government securities and futures contracts, traded on official markets with netting and guarantee mechanisms, as well as mainly plain vanilla interest rate derivatives to support the mutual banks' hedging requirements.

Transactions in interest rate derivatives also include interest rate swaps with institutional counterparties to support the special purpose vehicle in transforming interest flows generated by securitizations of receivables of the mutual banks and the companies of the Iccrea Banking Group. Overall exposure to interest rate risk is concentrated in transactions in euros. As a result, the impact of correlation between developments in the yield curves for other currencies is minimal.

## B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

### GOVERNANCE AND ORGANIZATIONAL MODEL

The market risk management and governance framework of the Iccrea Banking Group adopts a “centralized” approach. Iccrea Banca, as Parent Company, is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group’s market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

In this area, the Finance unit is the skills hub and liaison with the money and financial markets for the Iccrea Banking Group and the mutual banking industry.

## IDENTIFICATION OF RISKS

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

## RISK MEASUREMENT AND ASSESSMENT

Risk Management, acting through the Market Risks unit, is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- Probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- Deterministic metrics:
  - Level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - Analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - Stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - Loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

## Probabilistic metrics

### **Value at Risk (VaR)**

To calculate VaR, 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 matrix 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.

## Deterministic metrics

### **Sensitivity and Greeks of options**

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors. The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

**Level metrics**

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

**Stress testing and scenarios**

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

**Loss**

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

## RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthening the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations). The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effectiveness management of market risk is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

## MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the

threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Bank's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the operating units, top management and the Board of Directors.

#### *RISK MANAGEMENT AND MITIGATION*

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

## QUANTITATIVE DISCLOSURES

### 1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

### 2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

### 3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2 million in 1-day VaR calculated using a parametric method has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method. In the last 250 trading days, the average VaR has been €0.43 million, with a minimum of €0.12 million and a maximum of €1.314 million (registered on March 6, 2017), which is below the limit for that specific category of operations, which was €1.8 million for the head of Finance at Iccrea Banca and €2 million for the General Manager of Iccrea Banca. At December 29, 2017, the VaR was €0.15 million.

Daily VaR on Trading Book	Notional	VaR	
	29/12/2017	Limit	Risk Profile
€\million			
Iccrea Banca	11,978	2.00	0.15



## 2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

### QUALITATIVE DISCLOSURES

#### A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

##### GOVERNANCE AND ORGANIZATIONAL MODEL

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book, including 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;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;
- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of Risk Management, monitors and manages interest rate risk at the individual and consolidated level and verifies compliance with the limits set at the strategic planning stage.

Management of interest rate risk on the banking book is performed by the **Asset & Liability Management (ALM)** function, performed by the Finance unit, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations;
- **Money Market operations**, which are performed by the Treasury and Foreign Exchange unit. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations.

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to Iccrea Banca using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

## IDENTIFICATION OF RISKS

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, sources of interest rate risk are identified and classified in the following risk sub-categories: repricing risk, yield curve risk, basis risk and option risk.

## RISK MEASUREMENT AND ASSESSMENT

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach:** this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- **Economic value approach:** this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- **Repricing gap:** this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII sensitivity:** the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income in the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- **Duration gap:** the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the

banking book in different time buckets on the basis of their repricing date, by the associated modified duration;

- **EVE sensitivity:** the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests are conducted for the two metrics:

- **EVE Sensitivity:** using a full revaluation approach with the adoption of risk-free yield curves. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NII Sensitivity:** using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic “going concern” approach with a “constant balance sheet” view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book.

The scenarios used in the stress testing are based on both regulatory shocks and internally defined shocks.

Sample scenarios used for IRRBB stress testing include:

- **Parallel shocks:** parallel shocks to the yield curve in order to assess the impact on economic value and net interest income. based on various degrees of severity (e.g. changes of +/- 200 bps in the curve);
- **Non-parallel shocks:** non-parallel shocks to different notes of the yield curve shock in order to assess the impact on economic value and net interest income. based on various degrees of severity (steepening and flattening shocks);
- **Historical:** shocks defined internally on the basis of prudential assessments and historical analyses of observed rate variations.

### *RISK PREVENTION AND ATTENUATION*

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Icrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to the Bank as the Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable ) consistent with the interest rate risk management model adopted.

The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Risk limits and additional metrics are also used to monitor the exposure to the individual business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

The system of limits is also accompanied by a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

### MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.<sup>1</sup> At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and the Board of Directors.

<sup>1</sup> See. “ “Interest Rate Risk in the Banking Book Policy (IRRBB Policy)””;

## RISK MANAGEMENT AND MITIGATION

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of Iccrea Banca, which handles the centralized management of the exposure to interest rate risk by selecting market parameters (e.g. 3-month Euribor rather than 6-month Euribor) that appropriately reflect the actual risk associated with the products placed by the Group.

## 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 December 31, 2016 the following positions were hedged:

- 1 fixed-rate loan issued to BCC Solutions with a remaining liability including accrued interest of €17.9 million hedged by means of an interest rate swap (IRS);
- 2 fixed-rate bonds issued by the Bank and hedged by means of IRSs with a nominal value of €363.1 million;
- 2 fixed-rate bonds issued by the Bank and hedged by means of an IRS with a nominal value of €60 million;
- 3 treasury bond (BTP) linked to European inflation hedged with IRSs and options with a nominal value of €250 million;
- 1 treasury bond (BTP) linked to Italian inflation hedged with IRSs and options with a nominal value of €100 million;
- 3 fixed-rate treasury bonds (BTPs) with a value of €260 million;
- 1 IMI Banca bond, hedged with an IRS with a nominal value of €72 million;
- 1 SNAM bond, hedged with an IRS with a nominal value of €1.35 million;
- 12 fixed-rate deposits hedged with overnight indexed swaps (OISs) with a nominal value of €754 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 cash flow hedges in place for the following transactions:

- 4 dollar-denominated bonds hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €72.5 million.

## QUANTITATIVE DISCLOSURE

### 1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

### 2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

SCENARIO	IMPACT ON ECONOMIC VALUE		IMPACT ON NET INTEREST INCOME AT 12 MONTHS	
	- 100 bp	+100 bp	- 100 bp	+100 bp
	-146.0	+141.9	-51.6	+51.3

## 2.3 EXCHANGE RATE RISK

### QUALITATIVE DISCLOSURE

#### A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

#### B. Hedging exchange rate risk

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduated by the importance of the currencies.

## DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	CURRENCY					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER
<b>A. Financial assets</b>	<b>162,516</b>	<b>6,350</b>	<b>12,490</b>	<b>5,967</b>	<b>51,045</b>	<b>12,835</b>
A.1 Debt securities	64,237	-	-	-	-	226
A.2 Equity securities	9,718	1,863	-	-	-	-
A.3 Loans to banks	53,304	4,487	12,490	5,967	51,045	12,609
A.4 Loans to customers	35,257	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>6,672</b>	<b>4,326</b>	<b>504</b>	<b>674</b>	<b>3,933</b>	<b>1,587</b>
<b>C. Financial liabilities</b>	<b>281,931</b>	<b>9,386</b>	<b>1,159</b>	<b>6,226</b>	<b>47,949</b>	<b>7,380</b>
C.1 Due to banks	205,810	9,386	1,159	6,226	47,949	7,380
C.2 Due to customers	3,448	-	-	-	-	-
C.3 Debt securities	72,673	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Options	-	-	-	-	-	1,420
+ Long positions	-	-	-	-	-	1,420
+ Short positions	-	-	-	-	-	-
- Other derivatives	12,751,290	4,406,180	1,550,738	1,312,840	611,221	164,047
+ Long positions	6,438,390	2,203,294	769,527	656,256	302,345	80,325
+ Short positions	6,312,900	2,202,886	781,211	656,584	308,876	83,722
<b>Total assets</b>	<b>6,607,578</b>	<b>2,213,970</b>	<b>782,521</b>	<b>662,897</b>	<b>357,323</b>	<b>96,167</b>
<b>Total liabilities</b>	<b>6,594,831</b>	<b>2,212,272</b>	<b>782,370</b>	<b>662,810</b>	<b>356,825</b>	<b>91,102</b>
<b>Difference (+/-)</b>	<b>12,747</b>	<b>1,698</b>	<b>151</b>	<b>87</b>	<b>498</b>	<b>5,065</b>

## 2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no other information to report.

## 2.4 DERIVATIVES

### A. FINANCIAL DERIVATIVES

#### A.1 SUPERVISORY TRADING BOOK: END-PERIOD NOTIONAL AMOUNTS

	31/12/2017		31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
<b>1. Debt securities and interest rates</b>	<b>14,654,220</b>	-	<b>13,061,897</b>	-
a) Options	2,185,232	-	2,592,089	-
b) Swaps	12,447,230	-	10,216,439	-
c) Forwards	16,758	-	16,170	-
d) Futures	5,000	-	178,800	-
e) Other	-	-	58,399	-
<b>2. Equity securities and equity indices</b>	<b>11,918</b>	-	<b>13,555</b>	-
a) Options	10,811	-	12,119	-
b) Swap	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	1,107	-	1,436	-
e) Other	-	-	-	-
<b>3. Foreign currencies and gold</b>	<b>15,339,302</b>	-	<b>4,630,676</b>	-
a) Options	5,904	-	15,761	-
b) Swaps	5,003	-	-	-
c) Forwards	15,328,395	-	4,614,915	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>TOTAL</b>	<b>30,005,440</b>	-	<b>17,706,128</b>	-



## A.2 BANKING BOOK: END-PERIOD NOTIONAL AMOUNTS

### A.2.1 HEDGING

	31/12/2017		31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
<b>1. Debt securities and interest rates</b>	<b>2,574,665</b>	-	<b>6,149,070</b>	-
a) Options	680,100	-	538,100	-
b) Swaps	1,894,565	-	5,610,970	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and equity indices</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Foreign currencies and gold</b>	<b>75,044</b>	-	<b>90,124</b>	-
a) Options	-	-	-	-
b) Swaps	75,044	-	90,124	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>TOTAL</b>	<b>2,649,709</b>	-	<b>6,239,194</b>	-

## A.2.2 OTHER DERIVATIVES

	31/12/2017		31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
<b>1. Debt securities and interest rates</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and equity indices</b>	<b>8,593</b>	-	<b>18,475</b>	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	8,593	-	18,475	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Foreign currencies and gold</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>TOTAL</b>	<b>8,593</b>	-	<b>18,475</b>	-

### A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	POSITIVE FAIR VALUE			
	31/12/2017		31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
<b>A. Supervisory trading book</b>	<b>307,006</b>	-	<b>330,461</b>	-
a) Options	4,445	-	9,259	-
b) Interest rate swaps	206,716	-	294,682	-
c) Cross currency swaps	41	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	95,787	-	26,463	-
f) Futures	17	-	56	-
g) Other	-	-	1	-
<b>B. Banking book – hedging</b>	<b>6,759</b>	-	<b>15,347</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	5,406	-	7,918	-
c) Cross currency swaps	1,353	-	7,429	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking book – Other derivatives</b>	<b>-</b>	-	<b>-</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>TOTAL</b>	<b>313,765</b>	-	<b>345,808</b>	-

#### A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE– BREAKDOWN BY PRODUCT

	NEGATIVE FAIR VALUE			
	31/12/2017		31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
<b>A. Supervisory trading book</b>	<b>317,492</b>	-	<b>326,511</b>	-
a) Options	5,039	-	10,275	-
b) Interest rate swaps	212,527	-	299,610	-
c) Cross currency swaps	37	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	99,869	-	15,839	-
f) Futures	20	-	787	-
g) Other	-	-	-	-
<b>B. Banking book – hedging</b>	<b>48,072</b>	-	<b>51,836</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	44,113	-	51,836	-
c) Cross currency swaps	3,959	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking book – Other derivatives</b>	<b>-</b>	-	<b>-</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>TOTAL</b>	<b>365,564</b>	-	<b>378,347</b>	-

## A.5 OVER-THE-COUNTER FINANCIAL DERIVATIVES – SUPERVISORY TRADING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE UNDERTAKINGS	NON-FINANCIAL COMPANIES	OTHER
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	1,193,610	567	-	-	145,813
- positive fair value	-	-	45,808	-	-	-	55
- negative fair value	-	-	4,299	10	-	-	679
- future exposure	-	-	5,737	-	-	-	8
<b>2) Equity securities and equity indices</b>							
- notional value	114	-	6,247	-	-	-	658
- positive fair value	8	-	38	-	-	-	-
- negative fair value	-	-	28	-	-	-	69
- future exposure	-	-	240	-	-	-	-
<b>3) Foreign currencies and gold</b>							
- notional value	-	-	3,433	10,945	-	-	-
- positive fair value	-	-	41	-	-	-	-
- negative fair value	-	-	8	88	-	-	-
- future exposure	-	-	9	109	-	-	-
<b>4) Other assets</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

## A.6 OVER-THE-COUNTER FINANCIAL DERIVATIVES – SUPERVISORY TRADING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE UNDERTAKINGS	NON-FINANCIAL COMPANIES	OTHER
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	12,793,312	521,485	-	-	-
- positive fair value	-	-	156,716	8,300	-	-	-
- negative fair value	-	-	204,191	8,321	-	-	-
<b>2) Equity securities and equity indices</b>							
- notional value	744	-	4,270	-	-	-	-
- positive fair value	35	-	210	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>3) Foreign currencies and gold</b>							
- notional value	-	-	12,182,801	3,142,123	-	-	-
- positive fair value	-	-	85,995	9,807	-	-	-
- negative fair value	-	-	80,762	19,046	-	-	-
<b>4) Other assets</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

## A.7 OVER-THE-COUNTER FINANCIAL DERIVATIVES – BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE UNDERTAKINGS	NON-FINANCIAL COMPANIES	OTHER
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Equity securities and equity indices</b>							
- notional value	-	-	-	8,593	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3) Foreign currencies and gold</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>4) Other assets</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

## A.8 OVER-THE-COUNTER FINANCIAL DERIVATIVES – BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE UNDERTAKINGS	NON-FINANCIAL COMPANIES	OTHER
<b>1) Debt securities and interest rates</b>							
- notional value	-	-	2,574,665	-	-	-	-
- positive fair value	-	-	5,406	-	-	-	-
- negative fair value	-	-	44,113	-	-	-	-
<b>2) Equity securities and equity indices</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>3) Foreign currencies and gold</b>							
- notional value	-	-	20,845	54,198	-	-	-
- positive fair value	-	-	151	1,202	-	-	-
- negative fair value	-	-	1,087	2,872	-	-	-
<b>4) Other assets</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

## A.9 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	UP TO 1 YEAR	MORE THAN 1 YEAR AND UP TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
<b>A. Supervisory trading book</b>	<b>20,743,521</b>	<b>4,251,299</b>	<b>5,010,622</b>	<b>30,005,442</b>
A.1 Financial derivatives on debt securities and interest rates	5,401,880	4,242,463	5,009,878	14,654,221
A.2 Financial derivatives on equity securities and equity indices	7,675	3,500	744	11,919
A.3 Financial derivatives on exchange rates and gold	15,333,966	5,336	-	15,339,302
A.4 Financial derivatives on other assets	-	-	-	-
<b>B. Banking book</b>	<b>1,698,467</b>	<b>650,520</b>	<b>309,315</b>	<b>2,658,302</b>
B.1 Financial derivatives on debt securities and interest rates	1,695,234	570,116	309,315	2,574,665
B.2 Financial derivatives on equity securities and equity indices	3,233	5,360	-	8,593
B.3 Financial derivatives on exchange rates and gold	-	75,044	-	75,044
B.4 Financial derivatives on other assets	-	-	-	-
<b>31/12/2017</b>	<b>22,441,988</b>	<b>4,901,819</b>	<b>5,319,937</b>	<b>32,663,744</b>
<b>31/12/2016</b>	<b>13,798,481</b>	<b>5,918,504</b>	<b>4,246,812</b>	<b>23,963,797</b>



**A.10 OVER-THE-COUNTER FINANCIAL DERIVATIVES: COUNTERPARTY RISK/FINANCIAL RISK – INTERNAL MODELS**

At the reporting date, internal models were not used to measure counterparty risk/financial risk.

**B. CREDIT DERIVATIVES****B.1 CREDIT DERIVATIVES: END-PERIOD NOTIONAL AMOUNTS**

	SUPERVISORY TRADING BOOK		BANKING BOOK	
	SINGLE NAME	BASKET	SINGLE NAME	BASKET
<b>1. Purchases of protection</b>				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
<b>31/12/2017</b>	-	-	-	-
<b>31/12/2016</b>	-	-	-	-
<b>2. Sales of protection</b>				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	15,000	-
<b>31/12/2017</b>	-	-	<b>15,000</b>	-
<b>31/12/2016</b>	-	-	<b>15,000</b>	-

**B.2 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE FAIR VALUE -BREAKDOWN BY PRODUCT**

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

**B.3 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT**

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

#### B.4 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE UNDERTAKINGS	NON-FINANCIAL COMPANIES	OTHER
<b>Supervisory trading book</b>							
<b>1) Purchases of protection</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Sales of protection</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>Banking book</b>							
<b>1) Purchases of protection</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>2) Sales of protection</b>							
- notional value	-	-	15,000	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

#### B.5 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

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

#### B.6 RESIDUAL LIFE OF CREDIT DERIVATIVES: NOTIONAL VALUES

	UP TO 1 YEAR	MORE THAN 1 YEAR AND UP TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
<b>A. Supervisory trading book</b>				
A.1 Credit derivatives with qualifying reference obligation	-	-	-	-
A.2 Credit derivatives with non-qualifying reference obligation	-	-	-	-
<b>B. Banking book</b>				
B.1 Credit derivatives with qualifying reference obligation	-	-	15,000	15,000
B.2 Credit derivatives with non-qualifying reference obligation	-	-	15,000	15,000
<b>31/12/2017</b>	-	-	<b>15,000</b>	<b>15,000</b>
<b>31/12/2016</b>	-	-	<b>15,000</b>	<b>15,000</b>

#### B.7 CREDIT DERIVATIVES: COUNTERPARTY RISK/FINANCIAL RISK – INTERNAL MODELS

At the reporting date, internal models were not used to measure counterparty risk/financial risk.

## C. FINANCIAL AND CREDIT DERIVATIVES

### C.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE AND FUTURE EXPOSURE BY COUNTERPARTY

	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE UNDERTAKINGS	NON-FINANCIAL COMPANIES	OTHER
<b>1) Bilateral agreements – financial derivatives</b>							
- positive fair value	-	-	127,733	6,248	-	-	-
- negative fair value	-	-	212,036	19,526	-	-	-
- future exposure	-	-	133,408	16,510	-	-	-
- net counterparty risk	-	-	119,444	4,934	-	-	-
<b>2) Bilateral agreements – credit derivatives</b>	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
<b>3) Cross-product agreements</b>							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

## SECTION 3 - LIQUIDITY RISK

### QUALITATIVE DISCLOSURES

#### A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (**funding liquidity risk**);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (**market liquidity risk**).

The framework for managing liquidity and governing liquidity risk within the Iccrea Banking Group is based on the centralization of those activities with Iccrea Banca.

That framework is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principle of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

Iccrea Banca is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis for the Group by Iccrea Banca, which performs the following functions:
  - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
  - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
  - funding the securities portfolio at the Group level;
  - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
  - managing open market operations with the ECB.

- the management of structural liquidity is centralized with Iccrea Banca, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
  - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc.);
  - structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by Iccrea Banca in its role as the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – which is divided into two complementary levels:
  - *intraday and very short-term liquidity*: monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - *short-term liquidity*: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- **structural liquidity** – identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The operating maturity ladder is constructed in accordance with the rules issued by the Bank of Italy as part of its periodic monitoring and it comprises a time horizon of up to 12 months. The Group's liquidity profile is represented in five main sections:

- transactions with institutional counterparties, which includes positions with the central bank, market counterparties and the interbank market, assuming no roll over of maturing positions;
- transactions with Corporate/Large Corporate customers;
- treasury forecasts;
- securities and finance operations;
- counterbalancing capacity.

This operational liquidity monitoring system makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinancable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder used in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model. Liquidity risk is monitored by the Risk Management unit of Iccrea Banca. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of Iccrea Bank, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

## *STRESS TEST FRAMEWORK*

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to discharge planned obligations over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of severe but plausible events (scenarios) that can be classified into three categories:

- **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy;
- **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Group. IN defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimate inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

Each scenario incorporates shocks generated by the Amin risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchange rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of assets to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.



## QUANTITATIVE DISCLOSURES

### DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY – EURO

	ON DEMAND	MORE THAN 1 DAY TO 7 DAYS	MORE THAN 7 DAYS TO 15 DAYS	MORE THAN 15 DAYS TO 1 MONTH	MORE THAN 1 MONTH TO 3 MONTHS	MORE THAN 3 MONTHS TO 6 MONTHS	MORE THAN 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNSPECIFIED MATURITY
<b>On-balance-sheet assets</b>	<b>1,745,660</b>	<b>2,126,781</b>	<b>1,518,899</b>	<b>1,865,344</b>	<b>3,855,445</b>	<b>1,926,078</b>	<b>2,773,758</b>	<b>15,327,150</b>	<b>1,680,938</b>	<b>976,697</b>
A.1 Government securities	4	-	100,384	15,005	272,990	171,531	581,854	1,328,933	315,648	-
A.2 Other debt securities	76,812	258,737	8	101	4,915	215,026	463,207	2,276,629	1,238,872	400
A.3 Units in collective investment undertakings	411,647	-	-	-	-	-	-	-	-	-
A.4 Loans	1,257,197	1,868,044	1,418,507	1,850,238	3,577,540	1,539,521	1,728,697	11,721,588	126,418	976,297
- banks	869,124	882,635	230,100	710,101	3,026,029	1,316,650	1,263,833	10,828,383	669	976,297
- customers	388,073	985,409	1,188,407	1,140,137	551,511	222,871	464,864	893,205	125,749	-
<b>On-balance-sheet liabilities</b>	<b>4,256,194</b>	<b>2,054,666</b>	<b>886,149</b>	<b>617,678</b>	<b>3,839,231</b>	<b>1,673,079</b>	<b>1,485,060</b>	<b>18,338,511</b>	<b>217,036</b>	<b>-</b>
B.1 Deposits	3,745,986	-	1,006	255,726	275,105	135,540	327,438	581,850	-	-
- banks	3,348,531	-	1,006	255,726	275,104	135,540	327,438	581,850	-	-
- customers	397,455	-	-	-	1	-	-	-	-	-
B.2 Debt securities	2,050	51	87	4,698	1,096,303	104,788	575,506	3,871,690	216,898	-
B.3 Other liabilities	508,158	2,054,615	885,056	357,254	2,467,823	1,432,751	582,116	13,884,971	138	-
<b>Off-balance-sheet transactions</b>										<b>-</b>
C.1 Financial derivatives with exchange of principal										
- long positions	-	2,578,986	1,268,235	121,702	1,123,741	23,190	5,705	83,590	26,117	-
- short positions	-	2,468,755	1,268,567	97,608	1,339,209	23,150	2,986	109,092	32,217	-
C.2 Financial derivatives without exchange of principal										
- long positions	214,280	-	-	-	1,009	2,751	1,430	-	-	-
- short positions	220,493	-	144	-	3,390	479	5,346	-	-	-
C.3 Deposits and loans to receive										
- long positions	-	439,057	-	-	1,235,352	588,893	-	1,357,752	-	-
- short positions	-	-	-	-	49,460	488,751	436,057	2,646,786	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

## DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY – OTHER CURRENCIES

	ON DEMAND	MORE THAN 1 DAY TO 7 DAYS	MORE THAN 7 DAYS TO 15 DAYS	MORE THAN 15 DAYS TO 1 MONTH	MORE THAN 1 MONTH TO 3 MONTHS	MORE THAN 3 MONTHS TO 6 MONTHS	MORE THAN 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNSPECIFIED MATURITY
<b>On-balance-sheet assets</b>	<b>32,617</b>	<b>27,839</b>	<b>34,982</b>	<b>31,455</b>	<b>35,938</b>	<b>12,653</b>	<b>2,204</b>	<b>40,137</b>	<b>24,868</b>	<b>-</b>
A.1 Government securities	-	38	-	131	171	430	770	29,691	14,511	-
A.2 Other debt securities	-	-	1	1	123	94	217	10,419	10,357	-
A.3 Units in collective investment undertakings	299	-	-	-	-	-	-	-	-	-
A.4 Loans	32,318	27,801	34,981	31,323	35,644	12,129	1,217	27	-	-
- banks	32,312	24,303	25,433	28,182	19,270	9,513	1,052	27	-	-
- customers	6	3,498	9,548	3,141	16,374	2,616	165	-	-	-
<b>On-balance-sheet liabilities</b>	<b>142,151</b>	<b>38,261</b>	<b>33,615</b>	<b>35,282</b>	<b>13,726</b>	<b>10,401</b>	<b>9,657</b>	<b>72,906</b>	<b>45</b>	<b>-</b>
B.1 Deposits	142,150	38,261	33,615	28,275	11,481	9,769	8,828	-	-	-
- banks	138,833	38,261	33,615	28,275	11,481	9,769	8,828	-	-	-
- customers	3,317	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	285	549	829	72,782	-	-
B.3 Other liabilities	1	-	-	7,007	1,960	83	-	124	45	-
<b>Off-balance-sheet transactions</b>										
C.1 Financial derivatives with exchange of principal										
- long positions	-	7,503,982	1,462,019	57,711	1,328,784	23,350	3,611	79,212	1,873	-
- short positions	-	7,612,930	1,461,608	130,938	1,113,053	23,101	5,857	4,768	1,952	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,289	-	-	-	-	-	-	-	-	-
- short positions	1,480	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
-- long positions	-	4,686	-	-	-	-	-	-	-	-
- short positions	-	4,686	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	15,980	-	-	-	-	-	-	-	-
- short positions	-	15,980	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

## SECTION 4 – OPERATIONAL RISKS

### QUALITATIVE DISCLOSURES

#### A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

In 2017, the Bank undertook a series of initiatives necessary for the effective implementation of the integrated system for the detection and analysis of operational risks adopted in 2016.

To this end, in July the Board of Directors approved the Group-level “Operational Risk Management Policy”, subsequently transmitted by directive to the subsidiaries for implementation.

The policy, drafted in compliance with national and European regulatory requirements, defines the following areas in addition to setting out the governance model:

- **Scope of operational risks:** this area includes legal risk, model risk, IT risk and boundary operational risks with credit and market risk. It does not comprise reputational and strategic risks;
- **Roles and responsibilities** and mechanisms for coordination with other control functions, developed in such as was as to ensure consistency with the organizational and governance model of the Banking Group in order to optimize and leverage information flows between existing units and to integrate with other corporate models in respect of specific risks and, more generally, the internal control system.
- A management framework for operational risks structured into five macro-phases:
  1. **Identification of risks:** this phase managed comprises Loss Data Collection, aimed at identifying recognized operational losses ex post, and the operational risk self-assessment, which assesses the potential operational risk exposure for each risk factor/process;
  2. **Evaluation/measurement of identified risks:** the Group, within the scope of management and coordination activities and in line with the method adopted for the calculation of its capital requirement to cover operational risk (and to disseminate the “operational” use of the risk assessment and the Loss Data Collection), provides for the definition of methods to determine the level of exposure to operational risks (e.g. Operational Risk Value at Risk), to flank the measurement carried out for regulatory purposes;
  3. **Risk prevention and mitigation:** the phase in which, after an analysis of cost/benefit and the risk/return trade-off, actions and/or techniques are put in place to:
    - prevent the occurrence of unfavorable events inside and outside the organization;
    - mitigate the impact of the manifestation of the event or the occurrence of unfavorable developments;
  4. **Monitoring and reporting:** the phase in which activities are aimed at representing the analysis and the developments in operational risks to top management, the managers of the risk factors and the business and specialist units;
  5. **Risk management and mitigation:** the phase dedicated to implementing the strategies to contain operational risk at levels consistent with the risk appetite established by the Board of Directors through the execution of activities by risk factor managers and business units.

In addition, as part of the evolutionary path of the operational risk management framework, the Bank, in its role as Parent Company, has undertaken an information-training program with all the legal entities of the Group in order to support the structuring of the identification and survey of operational losses (the Loss Data Collection process).

All of the above has been conducted in line with the planned changes leading up to the establishment of the Mutual Banking Group.

## QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is "gross income".

In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €36,666 thousand.

## **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

	31/12/2017	31/12/2016
<b>1. Share capital</b>	<b>1,151,045</b>	<b>1,151,045</b>
<b>2. Share premium reserve</b>	<b>4,747</b>	<b>4,747</b>
<b>3. Reserves</b>	<b>401,194</b>	<b>391,786</b>
- earnings	399,192	389,784
a) legal	50,309	48,201
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	348,678	341,378
- other	2,002	2,002
<b>4. Equity instruments</b>	<b>-</b>	<b>-</b>
<b>5. (Treasury shares)</b>	<b>(30,847)</b>	<b>(30,068)</b>
<b>6. Valuation reserves:</b>	<b>66,834</b>	<b>67,249</b>
- Financial assets available for sale	17,811	19,562
- Property and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(1,960)	(2,405)
- Foreign exchange differences	-	-
- Non-current assets held for sale	-	-
- Actuarial gains (losses) on defined benefit plans	(1,079)	(1,970)
- Share of valuation reserves of equity investments accounted for using equity method	-	-
- Special revaluation laws	52,062	52,062
<b>7. Net profit (loss) for the period</b>	<b>4,751</b>	<b>21,084</b>
<b>TOTAL</b>	<b>1,597,724</b>	<b>1,605,843</b>

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

	31/12/2017		31/12/2016	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	7,167	(1,846)	8,040	(3,720)
2. Equity securities	12,490	(45)	14,627	-
3. Units in collective investment undertakings	47	(2)	667	(51)
4. Loans	-	-	-	-
<b>TOTAL</b>	<b>19,704</b>	<b>(1,893)</b>	<b>23,334</b>	<b>(3,771)</b>

**B.3 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD**

	DEBT SECURITIES	EQUITY SECURITIES	UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	LOANS
<b>1. Opening balance</b>	<b>4,320</b>	<b>14,627</b>	<b>616</b>	-
<b>2. Increases</b>	<b>13,022</b>	<b>2,311</b>	<b>97</b>	-
2.1 Fair value gains	9,981	2,311	97	-
2.2. Reversal to income statement of negative reserves	3,041	-	-	-
- from impairment	-	-	-	-
- from realization	3,041	-	-	-
2.3 Other changes	-	-	-	-
<b>3. Decreases</b>	<b>12,023</b>	<b>4,492</b>	<b>667</b>	-
3.1 Fair value losses	4,063	44	-	-
3.2 Impairment adjustments	-	-	-	-
3.3 Reversal to income statement of positive reserves	7,960	4,448	667	-
3.4 Other changes	-	-	-	-
<b>4. Closing balance</b>	<b>5,319</b>	<b>12,446</b>	<b>46</b>	-

**B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD**

COMPONENTI/VALORI	31/12/2017	
	POSITIVE RESERVE	NEGATIVE RESERVE
1. Gain (loss) from changes in financial assumptions	-	-
2. Gain (loss) from passage of time	10	-
<b>TOTAL</b>	<b>10</b>	<b>-</b>



## SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

### 2.1 OWN FUNDS

#### A. Qualitative disclosures

Own funds, risk-weighted assets and solvency ratios at December 31, 2017 have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision (“Basel 3”) within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.

The provisions concerning own funds call for the new regulatory framework to be introduced gradually, over a transitional period generally ending in the current period during which certain components that, once completely implemented will be fully calculated in or deductible from common equity, at present only partially impact Common Equity Tier 1 capital. The remaining percentage is normally calculated in/deducted from Additional Tier 1 (AT1) capital and Tier 2 (T2) capital or is included among risk-weighted assets. There are also transitional provisions regarding subordinated instruments that do not meet the requirements of the new regulations that aim to gradually remove instruments that are no longer eligible from own funds (over 8 years). The prudential ratios therefore take account of the adjustments required by the transitional provisions.

At December 31, 2017 own funds amounted to €1,693 million, as against a total capital requirement of €329,600 million, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

#### 1. COMMON EQUITY TIER 1 (CET1) CAPITAL

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,592,973 thousand. Applying prudential filters, represented by the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €2,474 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,590,499 thousand. The elements to be deducted consist of intangible assets and deferred tax assets based on future profitability, net of deferred tax liabilities, and amount to €30,137 thousand, while the positive impact of the transitional system on CET 1 comes to €1,024 thousand and is represented by the negative actuarial reserves (IAS 19) and the exclusion of unrealized profits on AFS securities. Therefore, CET1 amounts to €1,561 million.

#### 2. ADDITIONAL TIER 1 (AT1) CAPITAL

There are no instruments that are included under Additional Tier 1 (AT1) capital in these financial statements.

### 3. TIER 2 (T2) CAPITAL

Tier 2 (T2) capital, before the application of the filters provided for under the transitional system, amounts to €130,562 thousand and is composed of three subordinated bonds issued by the Bank, net of the redeemable portion. As a result of the transitional provisions, there is a positive filter of unrealized gains on AFS securities amounting to €1,220 thousand, bringing the total Tier 2 capital to €131,782 thousand.

The following are the characteristics of the subordinated lower Tier II bonds:

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €106,600 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11,737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest rate 6M Euribor + 350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption.

## B. Quantitative disclosures

	31/12/2017	31/12/2016
<b>A. Common Equity Tier 1 (CET1) capital before the application of the prudential filters</b>	<b>1,592,973</b>	<b>1,584,857</b>
of which CET1 instruments subject to the transitional provisions	-	-
<b>B. CET1 prudential filters (+/-)</b>	<b>(2,474)</b>	<b>(2,774)</b>
<b>C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)</b>	<b>1,590,499</b>	<b>1,582,083</b>
<b>D. Elements to be deducted from CET1</b>	<b>(30,137)</b>	<b>(30,963)</b>
<b>E. Transitional system - Impact on CET1 (+/-)</b>	<b>1,024</b>	<b>3,470</b>
<b>F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)</b>	<b>1,561,386</b>	<b>1,554,590</b>
<b>G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system</b>	-	-
of which AT1 instruments subject to the transitional provisions	-	-
<b>H. Elements to be deducted from AT1</b>	-	-
<b>I. Transitional system - Impact on AT1 (+/-)</b>	-	-
<b>L. Total Additional Tier 1 (AT1) capital (G - H +/- I)</b>	-	-
<b>M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system</b>	<b>130,562</b>	<b>130,562</b>
of which Tier 2 instruments subject to the transitional provisions	-	-
<b>N. Elements to be deducted from T2</b>	-	-
<b>O. Transitional system - Impact on T2 (+/-)</b>	<b>1,220</b>	<b>3,045</b>
<b>P. Total Tier 2 (T2) capital (M - N +/- O)</b>	<b>131,782</b>	<b>133,607</b>
<b>Q. Total own funds (F + L + P)</b>	<b>1,693,168</b>	<b>1,688,197</b>

## 2.2 CAPITAL ADEQUACY

### A. Qualitative disclosures

The capital ratios at December 31, 2017, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

### B. Quantitative disclosures

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/REQUIREMENTS	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
<b>A. EXPOSURES</b>				
<b>A.1 CREDIT AND COUNTERPARTY RISK</b>	<b>51,006,779</b>	<b>77,280,843</b>	<b>3,341,694</b>	<b>3,025,413</b>
1. Standardized approach	50,997,813	77,274,351	3,332,728	3,018,921
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	8,966	6,492	8,966	6,492
<b>B. CAPITAL REQUIREMENTS</b>				
<b>B.1 CREDIT AND COUNTERPARTY RISK</b>			<b>267,336</b>	<b>242,033</b>
<b>B.2 RISK OF ADJUSTMENT OF CREDIT RATING</b>			<b>6,127</b>	<b>6,608</b>
<b>B.3 SETTLEMENT RISK</b>				
<b>B.4 MARKET RISKS</b>			<b>19,471</b>	<b>20,364</b>
1. Standardized method			19,471	20,364
2. Internal models				
3. Concentration risk				
<b>B.5 OPERATIONAL RISK</b>			<b>36,666</b>	<b>36,177</b>
1. Basic indicator approach			36,666	36,177
2. Standardized approach				
3. Advanced measurement approach				
<b>B.6 OTHER COMPONENTS</b>				
<b>B.7 TOTAL PRUDENTIAL REQUIREMENTS</b>			<b>329,600</b>	<b>305,182</b>
<b>C. EXPOSURES AND CAPITAL ADEQUACY RATIOS</b>				
<b>C.1 RISK-WEIGHTED ASSETS</b>			<b>4,119,994</b>	<b>3,814,776</b>
<b>C.2 CET1 CAPITAL RATIO</b>			<b>37.90%</b>	<b>40.75%</b>
<b>C.3 TIER1 CAPITAL RATIO</b>			<b>37.90%</b>	<b>40.75%</b>
<b>C.4 TOTAL CAPITAL RATIO</b>			<b>41.10%</b>	<b>44.25%</b>



## **PART G**

### Business combinations



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





## **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 top managers, as well as the members of the Board of Auditors.

	31/12/2017
Compensation and other remuneration	2,213
Post-employment benefits	10

	31/12/2017
Compensation of members of Board of Auditors	315

## LOANS AND GUARANTEES ISSUED:

	31/12/2017
- Members of Board of Directors	431
- Members of Board of Auditors	-

## 2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The following tables report the balance sheet and income statement items involved in intercompany transactions:

ASSETS	A20_FINANCIAL ASSETS HELD FOR TRADING	A30_FINANCIAL ASSETS AT FAIR VALUE	A60_DUE FROM BANKS	A70_LOANS TO CUSTOMERS	A150_OTHER ASSETS
BANCA SVILUPPO	40		52,533		499
BCC BENI IMMOBILI				7,656	138
BCC CREDITOCONSUMO				736,700	3,343
BCC FACTORING				481,829	526
BCC GESTIONE CREDITI				452	1,171
BCC LEASE				333,848	56
BCC RETAIL					45
BCC RISPARMIO E PREVIDENZA					7,237
BCC SERVIZI INFORMATICI					403
BCC SOLUTIONS				31,871	2,230
ICCREA BANCAIMPRESA	44,425		6,698,895		17,362
VENTIS				2,358	113
<b>TOTAL</b>	<b>44,465</b>	<b>-</b>	<b>6,751,428</b>	<b>1,594,714</b>	<b>33,123</b>

LIABILITIES	L10_ DUE TO BANKS	L20_ DUE TO CUSTOMERS	L30_ SECURITIES ISSUED	L40_ FINANCIAL LIABILITIES HELD FOR TRADING	L50_ FINANCIAL LIABILITIES AT FAIR VALUE	L100_ OTHER LIABILITIES
BANCA SVILUPPO	255,758		418,738	521		16
BCC BENI IMMOBILI						
BCC CREDITOCONSUMO		9,203				2
BCC FACTORING		3,297				1,155
BCC GESTIONE CREDITI		4,348				202
BCC LEASE		795				1,410
BCC RETAIL		18				
BCC RISPARMIO E PREVIDENZA		19,624				285
BCC SERVIZI INFORMATICI		1,137				6,588
BCC SOLUTIONS		36				583
ICCREA BANCAIMPRESA	11,518			3,710		27,785
VENTIS						100
<b>TOTAL</b>	<b>267,276</b>	<b>38,458</b>	<b>418,738</b>	<b>4,231</b>	<b>-</b>	<b>38,126</b>

INCOME STATEMENT	I10_ INTEREST AND SIMILAR INCOME	I20_ INTEREST AND SIMILAR EXPENSE	I40_ FEE AND COMMISSION INCOME	I50_ FEE AND COMMISSION EXPENSE	I80_ NET GAIN (LOSS) ON TRADING ACTIVITIES	I150_ ADMINISTRATIVE EXPENSES	I190_ OTHER OPERATING EXPENSES/INCOME
BANCA SVILUPPO	844	(8,237)	1,958	(2,384)	234	495	746
BCC BENI IMMOBILI	118						10
BCC CREDITOCONSUMO	14,772		150			238	707
BCC FACTORING	447		19			40	167
BCC GESTIONE CREDITI	12		4			(170)	189
BCC LEASE	3,564		137			25	184
BCC RETAIL	1						111
BCC RISPARMIO E PREVIDENZA			3			632	1,067
BCC SERVIZI INFORMATICI			215			(12,109)	1,152
BCC SOLUTIONS	887		1			(22,051)	591
ICCREA BANCAIMPRESA	57,451	(7,384)	355	(1)	(239)	(2,708)	5,685
VENTIS	82		8			(451)	11
<b>TOTAL</b>	<b>78,178</b>	<b>(15,621)</b>	<b>2,850</b>	<b>(2,385)</b>	<b>(5)</b>	<b>(36,059)</b>	<b>10,620</b>

The item “I150 Administrative expenses” has a positive value with certain intercompany counterparties for which reimbursements of personnel expenses exceed other administrative expenses.

The following table reports the additional information required under IAS 24.

	<b>GROUP COMPANIES</b>	<b>ASSOCIATES AND OTHER RELATED PARTIES</b>	<b>TOP MANAGEMENT</b>	<b>EMPLOYEE POST- EMPLOYMENT BENEFITS</b>
Financial assets held for trading				
Financial assets at fair value through profit or loss				
Financial assets available for sale				
Due from banks				
Loans to customers	(2,358)	(221)	(314)	
Equity investments				
Other assets				
<b>TOTAL ASSETS</b>	<b>(2,358)</b>	<b>(221)</b>	<b>(314)</b>	<b>-</b>
Due to banks				
Due to customers	1,155	12,536		
Financial liabilities held for trading				
Financial liabilities at fair value through profit or loss				
Securities issued				
Other liabilities				
<b>TOTAL LIABILITIES</b>	<b>1,155</b>	<b>12,536</b>	<b>-</b>	<b>-</b>
<b>GUARANTEES ISSUED AND COMMITMENTS</b>	<b>56</b>	<b>1,000</b>	<b>-</b>	<b>-</b>

	<b>31/12/2017</b>			
	<b>GROUP COMPANIES</b>	<b>ASSOCIATES AND OTHER RELATED PARTIES</b>	<b>TOP MANAGEMENT</b>	<b>EMPLOYEE POST- EMPLOYMENT BENEFITS</b>
Interest and similar income	82	1		
Interest and similar expense		(2)		
Fee and commission income	9	69		
Fee and commission expense		(531)		
Net gain (loss) on trading activities				
Administrative expenses:			(2,539)	
Other operating expenses/income				



## **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



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 Lending, while the payment systems segment comprises Collections and Payments, E-Bank and Payment Systems and International 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.

(thousands of euros)	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16
Net interest income	30,937	52,134	(733)	(517)	7,378	(1,394)	37,582	50,222
Net service income	37,866	57,705	118,301	120,085	105,022	98,649	261,189	276,439
<b>Total revenues</b>	<b>68,803</b>	<b>109,839</b>	<b>117,568</b>	<b>119,568</b>	<b>112,400</b>	<b>97,255</b>	<b>298,771</b>	<b>326,661</b>
Administrative expenses	61,022	43,557	100,559	113,370	110,867	146,955	272,448	303,882
Net adjustments of property and equipment and intangible assets	2,427		3,576		2,958		8,960	
Other operating expenses/income	264	2,687	12,313	3,562	15,787	2,402	28,364	8,651
<b>Total operating expenses</b>	<b>63,713</b>	<b>46,244</b>	<b>116,448</b>	<b>116,932</b>	<b>129,611</b>	<b>149,357</b>	<b>309,772</b>	<b>312,533</b>
<b>Gross operating income</b>	<b>5,618</b>	<b>63,595</b>	<b>25,746</b>	<b>2,636</b>	<b>14,362</b>	<b>(52,103)</b>	<b>45,726</b>	<b>14,129</b>

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 includes €13.1 million from the recognition as at December of accruals on TLTRO funding. The decrease of €12.6 million in net interest income compared with December 2016, to -€25.7 million, if the other TLTRO income is not considered, is mainly attributable to (-€16.9 million) a contraction in the government securities portfolio. The only investment portfolio has average capital of €2.3 billion, compared with €4.8 billion in 2016, and average rates of 35 bps (compared with 53 bps). Collateralized operations contributed €12.4 million to the decline, a result of the decrease in funding of about €5 billion, with an additional €6 billion in funding with the TLTRO (yield 0%) to replace repurchase transactions (which at negative rates generated a gain for Iccrea Banca).

Net service income, which came to about €290 million in 2017 includes €163 million from net fees and commissions and other income and €126 million from trading operations and dividends.

The increase in net fees and commissions and other income from €157 million in 2016 to €163 million in 2017 reflects e-banking activities (+€10.5 million; at December 2016 this included prior-year expense of €1.3 million, while at December 2017 it included an incentive from MasterCard of €1.8 million). The 2017 result includes €1.2 million in respect of the repricing effect on collection and payment accounts.

The increase in net gains and losses from financial transactions, which rose from €96.8 million in December 2016 to €101 million in December 2017 includes the gains on financial assets available for sale.

Administrative expenses, which totaled €272.4 million at December 31, 2017 included personnel expenses of €79.6 million, compared with €92.6 million in 2016 and other administrative expenses of €192.8 million, compared with €211.3 million in 2016. Personnel expenses in 2017 include the recovery of the contribution for early termination incentives in the amount of €1.4 million, while other administrative expenses in 2017 include the contribution of €19.2 million to the National Resolution Fund, compared with €55.4 million in 2016.

Total net adjustments amounted to about €8.9 million in 2017 of which €3.8 million in depreciation and €5.1 million in amortization.

As a result of these developments, gross operating income in 2017 amounted to about €45.7 million, an increase of about 31.6 million on the previous year.

## Balance sheet

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. The amounts are end-period figures. Liabilities include share capital, reserves and net profit for the period. The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16
(MILLIONS OF EUROS)								
Cash and loans to customers	5,985	4,182	-	-	98	98	6,083	4,280
Due from banks	24,561	30,999	-	-	-	-	24,561	30,999
Other assets	3,375	7,221	33	26	1,966	1,870	5,374	9,117
<b>TOTAL LENDING</b>	<b>33,921</b>	<b>42,402</b>	<b>33</b>	<b>26</b>	<b>2,064</b>	<b>1,968</b>	<b>36,018</b>	<b>44,396</b>
Due to customers	7,717	23,798	507	630	20	16	8,244	24,444
Due to banks	19,401	13,265	-	-	-	-	19,401	13,265
Other liabilities	6,588	4,787	-	-	1,785	1,900	8,373	6,687
<b>TOTAL FUNDING</b>	<b>33,706</b>	<b>41,850</b>	<b>507</b>	<b>630</b>	<b>1,805</b>	<b>1,916</b>	<b>36,018</b>	<b>44,396</b>

## Secondary reporting basis

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





## **ATTACHMENTS**

Financial highlights  
of the subsidiaries



## EQUITY INVESTMENTS

	REGISTERED OFFICE	OPERATING HEADQUARTERS
Iccrea BancaImpresa S.p.A.	Rome	Rome
BCC Beni Immobili S.r.l.	Milan	Rome
BCC Retail	Milan	Milan
Ventis S.r.l.	Milan	Milan
Bcc Sistemi Informativi	Milan	Milan
BCC Risparmio e Previdenza	Milan	Milan
BCC Gestione Crediti	Rome	Rome
BCC Solutions	Rome	Rome
BCC Credito Consumo	Rome	Udine
Banca Sviluppo	Rome	Rome
QF Securfondo	Rome	Milan
Satisfay S.p.A.	Milan	Milan
M-Facility S.p.A.	Rome	Rome
Hi-Mtf S.p.A.	Milan	Milan
BCC Vita S.p.A.	Milan	Milan
BCC Assicurazioni	Milan	Milan
Accademia BCC S.c.p.A.	Rome	Rome

## ICCREA BANCAIMPRESA - FINANCIAL STATEMENTS

### BALANCE SHEET

	<b>Assets</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10.	Cash and cash equivalents	31,780	32,622
20.	Financial assets held for trading	27,490,349	35,223,436
30.	Financial assets at fair value	-	-
40.	Financial assets available for sale	91,713,342	28,011,190
50.	Financial assets held to maturity	-	2,338,958,896
60.	Due from banks	89,799,119	209,069,549
70.	Loans to customers	7,869,366,156	7,938,130,997
80.	Hedging derivatives	-	2,447,493
100.	Equity investments	48,345,339	46,342,498
110.	Property and equipment	6,034,909	1,715,890
120.	Intangible assets	376,596	308,814
	of which: - goodwill		
130.	Tax assets	165,856,276	183,675,376
	a) current	10,418,813	16,161,690
	b) deferred	155,437,463	167,513,686
	b1) of which L. 214/2011	143,680,321	149,806,381
140.	Non-current assets and disposal groups held for sale	-	-
150.	Other assets	74,208,339	78,513,572
	<b>Total assets</b>	<b>8,373,222,205</b>	<b>10,862,430,333</b>

<b>Liabilities and shareholders' equity</b>		<b>31/12/2017</b>	<b>31/12/2016</b>
10.	Due to banks	2,717,159,976	4,721,067,481
20.	Due to customers	681,374,832	695,272,387
30.	Securities issued	4,035,906,761	4,560,235,407
40.	Financial liabilities held for trading	30,604,167	39,793,278
60.	Hedging derivatives	17,506,667	22,285,716
100.	Other liabilities	112,493,011	121,547,603
110.	Employee termination benefits	4,904,679	5,149,618
120.	Provisions for risks and charges:	27,090,367	26,537,340
	b) other provisions	27,090,367	26,537,340
130.	Valuation reserves	(844,069)	(1,074,217)
160.	Reserves	45,947,961	14,537,661
170.	Share premium reserve	10,902,500	10,902,500
180.	Share capital	674,765,259	674,765,259
200.	Net profit (loss) for the period	15,410,094	(28,589,700)
<b>Total shareholders' equity and liabilities</b>		<b>8,373,222,205</b>	<b>10,862,430,333</b>

## INCOME STATEMENT

		31/12/2017	31/12/2016
10.	Interest and similar income	241,084,684	271,414,686
20.	Interest and similar expense	(62,195,927)	(75,202,162)
<b>30.</b>	<b>Net interest income</b>	<b>178,888,757</b>	<b>196,212,524</b>
40.	Fee and commission income	12,736,560	11,908,022
50.	Fee and commission expense	(2,990,660)	(3,884,742)
<b>60.</b>	<b>Net fee and commission income (expense)</b>	<b>9,745,900</b>	<b>8,023,280</b>
70.	Dividends and similar income	6,856,887	2,257,986
80.	Net gain (loss) on trading activities	559,921	(4,198,781)
90.	Net gain (loss) on hedging activities	507,262	234,342
100.	Net gain (loss) on the disposal or repurchase of:	10,366,723	(24,644,945)
	a) loans	(251,625)	(7,415,945)
	b) financial assets available for sale	13,021	(17,229,000)
	c) financial assets held to maturity	10,605,328	
<b>120.</b>	<b>Gross income</b>	<b>206,925,450</b>	<b>177,884,406</b>
130.	Net losses/recoveries on impairment:	(113,891,457)	(123,258,827)
	a) loans	(105,467,471)	(122,221,237)
	b) financial assets available for sale	(3,079,540)	-
	d) other financial transactions	(5,344,445)	(1,037,590)
<b>140.</b>	<b>Net income (loss) from financial operations</b>	<b>93,033,993</b>	<b>54,625,579</b>
150.	Administrative expenses:	(63,350,450)	(81,509,462)
	a) personnel expenses	(31,663,510)	(36,183,832)
	b) other administrative expenses	(31,686,940)	(45,325,629)
160.	Net provisions for risks and charges	(1,279,389)	(679,266)
170.	Net adjustments of property and equipment	(126,432)	(269,644)
180.	Net adjustments of intangible assets	(204,622)	(595,135)
190.	Other operating expenses/income	(6,428,287)	(6,137,878)
<b>200.</b>	<b>Operating expenses</b>	<b>(71,389,180)</b>	<b>(89,191,386)</b>
210.	Profit (loss) from equity investments	(1,771,882)	(2,907,502)
<b>250.</b>	<b>Profit (loss) before tax on continuing operations</b>	<b>19,872,931</b>	<b>(37,473,308)</b>
260.	Income tax expense from continuing operations	(4,462,837)	8,883,608
<b>270.</b>	<b>Profit (loss) after tax on continuing operations</b>	<b>15,410,094</b>	<b>(28,589,700)</b>
<b>290.</b>	<b>Net profit (loss) for the period</b>	<b>15,410,094</b>	<b>(28,589,700)</b>

## BCC BENI IMMOBILI - FINANCIAL STATEMENTS

## BALANCE SHEET

ASSETS	31/12/2017	31/12/2016
<b>B) NON-CURRENT ASSETS</b>		
I - INTANGIBLES	-	-
II - PROPERTY AND EQUIPMENT	24,699,186	25,757,251
III - FINANCIAL	310	310
<b>TOTAL NON-CURRENT ASSETS(B)</b>	<b>24,699,496</b>	<b>25,757,561</b>
<b>C) CURRENT ASSETS</b>		
II –RECEIVABLES		
Vat receivables	12,270	39,443
Due from parent company	-	37,923
deferred tax assets	60,961	44,280
other	72,633	72,603
IV - CASH AND CASH EQUIVALENTS	340	427
3) cash and valuable on hands	340	427
<b>TOTAL CURRENT ASSETS (C)</b>	<b>146,204</b>	<b>194,676</b>
D) ACCRUALS AND DEFERRALS	9,985	12,642
<b>TOTAL ACCRUALS AND DEFERRALS (D)</b>	<b>9,985</b>	<b>12,642</b>
<b>TOTAL ASSETS</b>	<b>24,855,685</b>	<b>25,964,879</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>A) SHAREHOLDERS' EQUITY</b>		
I - Share capital	12,649,000	12,649,000
II - Share premium reserve	5,581,000	5,581,000
IV - Legal reserve	10,525	4,759
VII - Retained earnings (loss carried forward)	(1,370,774)	(1,480,315)
X - Net profit (loss) for the period	152,498	115,307
<b>TOTAL (A)</b>	<b>(17,022,249)</b>	<b>(16,869,751)</b>
<b>D) PAYABLES</b>		
1) due to banks	7,652,148	8,657,298
2) due to suppliers	3,309	248,500
3) invoices to receive	32,073	21,368
4) due to tax authorities	136,571	163,323
<b>TOTAL (D)</b>	<b>7,824,101</b>	<b>9,090,489</b>
E) Accruals and deferrals	9,335	4,638
<b>TOTAL ACCRUALS AND DEFERRALS</b>	<b>9,335</b>	<b>4,638</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>24,855,685</b>	<b>25,964,879</b>



<b>INCOME STATEMENT</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
A) Revenues from sales and services	1,936,688	1,927,596
5) Other revenues and income:		
- other	14,513	11,596
<b>Total value of production (A)</b>	<b>1,951,201</b>	<b>1,939,192</b>
B) Production costs		
7) Services	77,829	97,896
9) Personnel		
- Wages and salaries	-	10,450
- Social security contributions	-	4,623
- Post-employment benefits	-	725
10) Depreciation		
- Other writedowns of non-current assets	1,146,465	1,144,245
14) Other operating expenses	307,974	278,916
<b>Total production costs (B)</b>	<b>1,532,268</b>	<b>1,536,856</b>
<b>Difference between value and cost of production (A-B)</b>	<b>418,933</b>	<b>402,336</b>
C) Financial income and expense		
17) Interest and other financial charges		
- other	118,204	126,131
<b>Total financial income and expense (C)</b>	<b>118,204</b>	<b>126,131</b>
<b>Profit (loss) before taxes (A-B±C±D±E)</b>	<b>300,729</b>	<b>276,205</b>
22) Income tax expense for the period current, deferred and prepaid		
a) current taxes	164,912	177,455
c) deferred tax assets	(16,681)	(16,557)
<b>23) NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>152,498</b>	<b>115,307</b>

## BCC RETAIL - FINANCIAL STATEMENTS

### BALANCE SHEET

Assets		31/12/2017	31/12/2016
B)	Non-current assets		
I)	Intangibles	101,872	226,722
II)	Property and equipment	9,487	22,580
III)	Financial	1	1
TOTAL B)		111,360	249,303
C)	Current assets		
II)	Receivables		
	Falling due within subsequent year	794,339	1,208,729
	Falling due beyond subsequent year	115,316	11,824
		909,655	1,220,553
IV)	Cash and cash equivalents	2,303,020	3,054,015
TOTAL C)		3,212,675	4,274,568
D)	Accruals and deferrals		
	- Accruals and deferrals	37,966	28,748
TOTAL D)		37,966	28,748
	<b>Total assets</b>	<b>3,362,001</b>	<b>4,552,619</b>
Liabilities and shareholders' equity		31/12/2017	31/12/2016
A)	Shareholders' equity		
I	Share capital	1,000,000	1,000,000
II	Share premium reserve		
IV	Legal reserve		720
VI	Other reserves		
IX	Retained earnings (loss carryforward)		(190,772)
X	Net profit (loss) for the period	(141,556)	(1,011,618)
	<b>Total shareholders' equity</b>	<b>858,444</b>	<b>(201,670)</b>
B	Provisions for risks and charges	740,472	467,312
C	Employee termination benefits.	265,297	279,791
D	Payables		
	Falling due within subsequent year	1,497,788	3,997,729
	Falling due beyond subsequent year		9,457
E	Accruals and deferrals		
	<b>Total liabilities and shareholders' equity</b>	<b>3,362,001</b>	<b>4,552,619</b>

## INCOME STATEMENT

Income Statement	31/12/2017	31/12/2016
A) Value of production		
1) Revenues from sales and services	4,327,197	4,207,546
5) Other revenues and income:		
- sundry	534,506	107,709
<b>Total value of production (A)</b>	<b>4,861,703</b>	<b>4,315,255</b>
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	42,561	24,631
7) Services	2,770,434	2,690,041
8) Leaseholds	206,202	197,277
9) Personnel	1,432,541	2,176,781
a) Wages and salaries	961,225	1,246,302
b) Social security contributions	300,556	347,181
c) Employee termination benefits	45,646	62,954
d) Post-employment benefits	46,463	53,142
e) Other costs	78,651	467,202
10) Depreciation, amortization and impairment losses		
a) Amortization	124,850	133,054
b) Depreciation	11,455	14,450
13) Other provisions	440,441	
14) Other operating expenses	5,857	2,785
<b>Total costs of production (B)</b>	<b>5,034,342</b>	<b>5,239,019</b>
<b>Difference between value and cost of production (A-B)</b>	<b>(172,638)</b>	<b>(923,764)</b>
C) Financial income and expense		
16) Other financial income		
- other	4,246	2,416
17) Interest and other financial charges:		
- other	766	2,228
<b>Total financial income and expense (C)</b>	<b>3,480</b>	<b>188</b>
<b>Profit (loss) before taxes (A - B + - C + - D)</b>	<b>(169,158)</b>	<b>(923,576)</b>
20) Income tax expense for the period, current, deferred and prepaid	(27,602)	(88,042)
a) current taxes	78,584	(88,042)
c) deferred tax assets and liabilities	(106,186)	
<b>21) Net profit (loss) for the period</b>	<b>(141,556)</b>	<b>(1,011,618)</b>

## VENTIS – FINANCIAL STATEMENTS

### BALANCE SHEET

ASSETS	31/12/2017	31/12/2016
B) non-current assets		
I - intangibles	676,903	625,313
II - property and equipment	123,688	100,904
III - financial	-	197
<b>Total non-current assets (B)</b>	<b>800,591</b>	<b>726,414</b>
C) current assets		
I – inventories	-	170,208
II - receivables	1,654,566	683,081
1 – due from customers	1,207,795	
4 - bis) TAX RECEIVABLES	8	
4 - ter) DEFERRED ASSETS	375,704	
5) due from others	71,059	
IV - cash and cash equivalents	28,416	978,295
1) Bank and postal deposits	(128,973)	
3) cash and valuable on hands	157,390	
<b>Total current assets (C)</b>	<b>2,246,444</b>	<b>1,831,584</b>
D) accruals and deferrals	34,308	16,966
<b>TOTAL ACCRUALS AND DEFERRALS (D)</b>	<b>34,308</b>	<b>16,966</b>
<b>Total assets</b>	<b>3,081,344</b>	<b>2,574,964</b>

Liabilities and shareholders' equity	31/12/2017	31/12/2016
A) Shareholders' Equity		
I - Share Capital	200,000	200,000
II - Share Premium Reserve		810,000
IV - Legal Reserve		1,493
VII – Other Reserves	1,578,790	28,377
VIII – Prior-Year Profit (Loss)		(10,956)
X – Net Profit (Loss) For The Period	(2,390,529)	(1,250,624)
<b>Totale Patrimonio Netto (A)</b>	<b>(611,756)</b>	<b>(211,710)</b>
B) Provisions For Risks And Charges		4,402
1) Post-Employment Benefits	663	
3) Other	4,402	
<b>Total Provisions For Risks And Charges (B)</b>	<b>5,065</b>	<b>4,402</b>
C) Employee Termination Benefits	19,904	26,652
<b>Total Employee Termination Benefits (C)</b>	<b>19,904</b>	<b>26,625</b>
D) Payables		
4) Due To Banks	2,350,000	
7) Due To Suppliers	1,164,263	
12) Due To Tax Authorities	(289,058)	
13) Due To Social Security Institutions	22,844	
14) Other Payables	38,128	
<b>Total Payables (D)</b>	<b>3,286,177</b>	<b>2,719,430</b>
E) Accruals And Deferrals	381,953	46,190
<b>Total Accruals And Deferrals (D)</b>	<b>381,953</b>	<b>46,190</b>
<b>Total Liabilities And Shareholders' Equity</b>	<b>3,081,344</b>	<b>2,574,964</b>

<b>Income Statement</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>A) Value of production</b>		
1) Revenues from sales and services	2,415,551	577,798
2) Change in products inventories	-	170,208
4) Increase in non-current assets for internal projects	-	310,043
5) Other revenues and income	306	5,289
- other	306	5,289
<b>Total value of production (A)</b>	<b>2,415,857</b>	<b>1,063,338</b>
<b>B) Production costs</b>		
6) Raw materials, ancillary products, consumables and goods	2,099,670	501,106
7) Services	1,854,494	1,508,029
8) Leaseholds	138,859	112,314
9) Personnel	933,330	408,083
a) Wages and salaries	733,969	323,392
b) Social security contributions	188,615	62,516
c) Employee termination benefits	10,696	22,175
e) Other costs	48	-
10) Depreciation, amortization and impairment losses	61,396	91,730
a) Amortization	39,609	80,887
b) Depreciation	21,787	10,843
11) Change in inventories of raw materials, ancillary products, consumables and goods	(393,252)	-
13) Other provisions	-	4,402
14) Other operating expenses	51,330	40,598
<b>Total other operating expenses (B)</b>	<b>4,745,831</b>	<b>2,666,262</b>
<b>Difference between value and cost of production (A-B)</b>	<b>(2,329,974)</b>	<b>(1,602,924)</b>
<b>C) Financial income and expense</b>		
16) Other financial income:	(3)	132
- other	(3)	132
17) Interest and other financial charges	(60,552)	(23,536)
- from parent companies	-	(21,423)
-other	(60,552)	(2,113)
<b>Total financial income and expense (C)</b>	<b>(60,555)</b>	<b>(23,404)</b>
<b>Profit (loss) before taxes (A-B±C±D±E)</b>	<b>(2,390,529)</b>	<b>(1,626,328)</b>
20) Income tax expense for the period, current, deferred and prepaid	-	
- current taxes	-	
- deferred tax liabilities	-	(375,704)
<b>21) Net profit (loss) for the period</b>	<b>(2,390,529)</b>	<b>(1,250,624)</b>

## BCC SISTEMI INFORMATICI – FINANCIAL STATEMENTS

## BALANCE SHEET

Assets	31/12/2017	31/12/2016
B) Non-current assets		
I - Intangibles	14,349,643	8,102,565
II – Property and equipment	9,350,640	2,439,744
III - Financial	16,791	16,791
<b>Total non-current assets (B)</b>	<b>23,717,074</b>	<b>10,559,100</b>
C) Current assets		
II - Receivables		
1 – due from customers	4,008,496	10,246,045
4. – due from parent companies	6,600,125	7,354,921
5 – due from companies under control of parent companies	1,561,517	1,1140,525
5. bis) – tax receivables	1,559,764	2,242,088
5 - ter) – deferred tax assets	1,662,520	1,669,739
5. - quater)- due from others	15,510,511	22,839,864
IV – Cash and cash equivalents		
1) Bank and postal deposits	22,187,543	29,161,270
3) cash and valuables on hand	3,577	3,671
<b>Total current assets (C)</b>	<b>37,701,631</b>	<b>52,004,805</b>
D) Accrued income and prepaid expenses	3,369,905	3,910,643
<b>Total accrued income and prepaid expenses (D)</b>	<b>3,369,905</b>	<b>3,910,643</b>
<b>Total assets</b>	<b>64,815,610</b>	<b>66,474,548</b>

<b>Liabilities</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>A) Shareholders' equity</b>		
I – Share capital	33,993,500	33,993,500
IV – Legal reserve	886,413	876,363
VI – Reserves established in bylaws	3,430,867	3,430,867
VIII – Retained earnings (loss carry forward)	2,087,933	1,896,978
IX – Net profit (loss) for the period	(15,267)	201,006
X - Negative reserve for treasury shares	(498,500)	(498,500)
<b>Total shareholders' equity (A)</b>	<b>39,884,947</b>	<b>39,900,213</b>
<b>B) Provision for risks and charges</b>		
1) post-employment benefits	226,953	267,141
3) other provisions	4,253,668	4,877,705
<b>Total provision for risks and charges (B)</b>	<b>4,480,621</b>	<b>5,144,846</b>
C) Employee termination benefits	2,335,428	2,669,710
<b>Total employee termination benefits</b>	<b>2,335,428</b>	<b>2,669,710</b>
<b>D) Payables</b>		
4) due to banks		
7) due to suppliers	13,886,370	12,599,897
11.bis) due to companies under control of parent companies	210,482	98,180
12) tax payables	566,334	727,294
13) due to social security institutions	935,583	1,089,725
14) other payables	1,229,579	950,689
<b>Total payables (D)</b>	<b>17,270,292</b>	<b>18,634,779</b>
E) Accrued expenses and deferred income	844,322	125,000
<b>Total accrued expenses and deferred income (D)</b>	<b>844,322</b>	<b>125,000</b>
<b>Total liabilities</b>	<b>64,815,610</b>	<b>66,474,548</b>

## INCOME STATEMENT

Income statement	31/12/2017	31/12/2016
A) Value of production		
1) Revenues from sales and services	78,677,759	80,461,098
4) Increase in non-current assets for internal projects	2,774,768	1,947,347
5) Other revenues and income:		
- sundry	1,909,271	1,179,088
<b>Total value of production (A)</b>	<b>83,361,798</b>	<b>83,587,533</b>
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	76,227	102,488
7) Services	48,636,432	42,590,468
8) Leaseholds	7,009,976	8,223,716
9) Personnel	18,231,449	24,583,383
a) Wages and salaries	13,070,369	14,555,144
b) Social security contributions	3,484,356	3,683,214
c) Employee termination benefits	759,360	947,086
d) Post-employment benefits	-	15,494
e) Other costs	917,364	5,382,445
10) Depreciation, amortization and impairment losses	7,288,489	7,062,590
a) Amortization	4,823,857	5,718,731
b) Depreciation	2,051,305	1,186,116
c) Other writedowns of non-current assets	123,095	132,264
d) Writedowns of receivables in current assets and cash and equivalents	290,232	25,479
12) Provisions for risks and charges	544,297	15,041
14) Other operating expenses	1,643,663	127,302
<b>Total production costs (B)</b>	<b>83,421,533</b>	<b>82,704,988</b>
<b>Difference between value and cost of production (A-B)</b>	<b>(59,735)</b>	<b>882,545</b>
C) Financial income and expense		
15) Income from equity investments:		
- other	3	5
16) Other financial income:		
- from companies under control of parent companies	67,023	4,752
- other	5,956	142,317
17) Interest and other financial charges:		
- other	980	677
17-bis) Exchange gains and losses	2,550	2,802
<b>Total financial income and expense (C)</b>	<b>74,552</b>	<b>149,019</b>
<b>Profit (loss) before taxes (A-B±C±D±E)</b>	<b>14,817</b>	<b>1,031,564</b>
20) Income tax expense for the period, current, deferred and prepaid	30,084	830,558
a) Current	33,068	1,589,091
c) Deferred	(2,985)	(758,533)
<b>21) Net profit (loss) for the period</b>	<b>(15,267)</b>	<b>201,006</b>



## BCC RISPARMIO & PREVIDENZA – FINANCIAL STATEMENTS

### BALANCE SHEET

<b>Assets</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10. Cash and cash equivalents	1,789	1,054
40. Financial assets held for trading	6,580,220	6,940,354
60. Receivables		
a) asset management	13,574,963	5,130,373
b) other	59,079,773	39,311,661
100. Property and equipment	4,919,793	5,130,814
110. Intangible assets	161,365	158,545
120. Tax assets		
a) current		363,267
b) deferred	388,489	351,049
140. Other assets	1,434,541	4,743,515
<b>Total assets</b>	<b>86,140,933</b>	<b>62,130,632</b>

<b>Liabilities and shareholders' equity</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10. Payables	30,349,340	21,141,248
70. Tax liabilities		
a) current	771,076	
b) deferred	254,122	245,515
90. Other liabilities	10,222,556	6,551,158
100. Employee termination benefits	287,767	309,116
110. Provisions for risks and charges		
b) other provisions	431,379	174,115
120. Share capital	8,500,000	8,500,000
150. Share premium reserve	1,337,801	1,337,801
160. Reserves	15,810,430	15,746,574
170. Valuation reserves	95,798	71,249
Net profit (loss) for the period (+/-)	18,080,664	8,053,856
<b>Total liabilities and shareholders' equity</b>	<b>86,140,933</b>	<b>62,130,632</b>

## INCOME STATEMENT

Income statement	31/12/2017	31/12/2016
10. Fee and commission income	143,637,583	103,298,131
20. Fee and commission expense	(99,141,976)	(74,854,999)
<b>Net fee and commission income</b>	<b>44,495,607</b>	<b>28,443,132</b>
40. Interest and similar income	120	158,672
<b>Gross income</b>	<b>44,495,727</b>	<b>28,465,766</b>
110. Administrative expenses		
a) personnel expenses	(4,667,314)	(5,667,925)
b) other administrative expenses	(13,285,338)	(10,092,774)
120. Net adjustments of property and equipment	(211,021)	(224,869)
130. Net adjustments of intangible assets	(114,652)	(141,996)
150. Net provisions for risks and charges	(251,668)	(118,333)
160. Other operating expenses/income	(22,814)	116,377
<b>Profit (loss) before tax on continuing operations</b>	<b>25,942,920</b>	<b>12,336,246</b>
Income tax expense from continuing operations	(7,862,256)	(4,282,390)
<b>Profit (loss) after tax on continuing operations</b>	<b>18,080,664</b>	<b>8,053,856</b>
<b>Net profit (loss) for the period</b>	<b>18,080,664</b>	<b>8,053,856</b>

## BCC GESTIONI CREDITI – FINANCIAL STATEMENTS

### BALANCE SHEET

Assets		31/12/2017	31/12/2016
B)	Non-current assets		
	I) Intangibles	73,073	99,891
	II) Property and equipment	26,324	39,532
	III) Financial	560,320	690,120
	1) Equity investments in		
	A) subsidiaries	560,320	690,120
	<b>Total non- current assets (b)</b>	<b>659,717</b>	<b>829,743</b>
C)	Current assets		
	II) Receivables	8,006,994	7,149,298
	1) Due from customers	5,145,309	36,344,330
	Within one year	4,937,791	3,330,118
	More than one year	207,518	304,217
	2) Due from subsidiaries	2,368	1,876
	4) Due from parent companies	202,289	774,427
	5) Due from companies under control of parent companies	1,638,281	1,831,529
	5 bis) Tax receivables	40,751	104,012
	5 ter) Deferred assets	462,041	446,405
	5 quarter) Due from others	515,956	856,718
	Within one year	301,552	241,626
	More than one year	214,403	615,092
	IV) Cash and cash equivalents	4,365,466	2,357,898
	1) Bank and postal deposits	4,364,772	2,356,343
	2) Cash and valuable on hands	694	1,555
	<b>Total current assets (C)</b>	<b>12,372,460</b>	<b>9,507,194</b>
	D) Accruals and deferrals	80,445	127,635
	<b>Total accruals and deferrals (D)</b>	<b>80,445</b>	<b>127,635</b>
	<b>Total assets</b>	<b>13,112,623</b>	<b>10,464,575</b>

<b>Liabilities and shareholders' equity</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
A) Shareholders' equity		
I Share capital	2,000,000	2,000,000
IV Legal reserve	87,169	67,227
VI Other reserves		
Payment on capital account	564,750	564,750
Reserve from acquisition of business unit	-413,752	-413,752
Reserve from valuation of employee termination benefits	23,821	5,801
VIII Retained earnings (loss carried forward)	1,361,071	982,158
IX Prior-year profit (loss)	2,774,488	398,857
X Net profit (loss) for the period		
<b>Total shareholders' equity (A)</b>	<b>6,397,548</b>	<b>3,605,041</b>
B Provisions for risks and charges		
2) For taxes, including deferred taxation	9,984	8,506
4) Other	25,000	25,000
<b>Total provisions for risks and charges (B)</b>	<b>34,984</b>	<b>33,506</b>
C) Employee termination benefits	172,026	264,004
<b>Total employee termination benefits (C)</b>	<b>172,026</b>	<b>264,004</b>
D) Payables		
4) Due to banks	447,444	828,786
Within one year	221,188	380,446
More than one year	226,256	448,340
7) Due to suppliers	1,695,606	1,767,968
11) Due to parent companies	1,786,028	1,803,903
11 bis) Due to companies under control of parent companies	64,991	748,271
12) Due to tax authorities	344,736	151,220
13) Due to social security institutions	444,996	217,668
14) Other payables	1,720,227	923,665
<b>Total payables (D)</b>	<b>6,504,029</b>	<b>6,441,480</b>
E) Accruals and deferrals	4,036	120,543
<b>Total accruals and deferrals (E)</b>	<b>4,036</b>	<b>120,543</b>
<b>Total liabilities and shareholders' equity</b>	<b>13,112,623</b>	<b>10,464,575</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
A) Value of production		
1) Revenues from sales and services	13,647,219	11,155,080
5) Other revenues and income	5,247,789	3,319,356
<b>Total value of production (A)</b>	<b>18,895,008</b>	<b>14,474,436</b>
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	1,159	862
7) Services	9,116,590	7,705,599
8) Leaseholds	676,677	351,300
9) Personnel		
a) Wages and salaries	3,259,893	2,710,763
b) Social security contributions	827,337	758,178
c) Employee termination benefits	60,084	79,789
d) Post-employment benefits	246,444	250,863
e) Other costs	64,622	221,232
10) Depreciation, amortization and impairment losses		
a) Amortization	26,819	28,106
b) Depreciation	13,207	15,460
d) Writedowns of receivables in current assets and cash and equivalents	146,712	616,647
14) Other operating expenses	275,715	336,831
<b>Total costs of production (B)</b>	<b>14,715,259</b>	<b>13,075,629</b>
<b>Difference between value and cost of production (A-B)</b>	<b>4,179,749</b>	<b>1,398,807</b>
C) Financial income and expense		
16) Other financial income:		
- other	30	257
17) Interest and other financial charges		
- other	13,450	34,279
<b>Total financial income and expense (C)</b>	<b>(13,420)</b>	<b>(34,022)</b>
D) Value adjustments of financial assets and liabilities		
19) writedowns	75,543	406,428
a) of equity investments	130,000	400,000
b) of non-current financial assets that do not represent equity investments	(54,457)	6,428
<b>Total adjustments (D)</b>	<b>(75,543)</b>	<b>(406,428)</b>
<b>Profit (loss) before taxes (A - B + - C + - D)</b>	<b>4,090,786</b>	<b>958,357</b>
20) Income tax expense for the period, current, deferred and prepaid		
a) current taxes	1,343,042	683,740
b) deferred tax liabilities	(6,829)	(3,606)
c) deferred tax assets	(19,915)	(120,135)
<b>21) Net profit (loss) for the period</b>	<b>2,774,486</b>	<b>398,857</b>

## BCC SOLUTIONS – FINANCIAL STATEMENTS

## BALANCE SHEET

ASSETS	31/12/2017	31/12/2016
<b>Non-current assets</b>		
<b>Intangibles</b>		
Software	321,621	396,050
<b>Total intangibles</b>	<b>321,621</b>	<b>396,050</b>
<b>Property and equipment</b>		
a) land	14,712,657	14,712,657
b) Buildings	64,830,149	47,772,494
c) Plant and machinery	13,303,902	3,050,970
d) Furniture and fittings	917,078	545,742
e) Assets under construction and payments on account	4,129,043	17,836,130
<b>Total property and equipment</b>	<b>97,892,828</b>	<b>83,917,993</b>
<b>Other non-current assets</b>		
a) Receivables for security deposits	118,947	88,508
b) Equity investments	1,500	1,500
<b>Total other non-current assets</b>	<b>120,447</b>	<b>90,008</b>
<b>Deferred tax assets</b>		
Deferred tax assets (tax prepayments)	2,761	3,625
<b>Total deferred tax assets</b>	<b>2,761</b>	<b>3,625</b>
<b>Current assets</b>		
<b>Trade receivables</b>		
a) trade receivables due from other companies	1,077,379	1,332,538
b) receivables due from parent company	436,393	1,387,311
c) receivables due from Group companies	1,827,398	3,589,957
d) other assets	274,993	336,687
<b>Total trade receivables</b>	<b>3,616,164</b>	<b>6,646,492</b>
<b>Cash and cash equivalents</b>		
a) bank deposits	2,388,222	5,548,553
b) cash and valuables on hand	3,488	5,454
<b>Total cash and cash equivalents</b>	<b>2,391,711</b>	<b>5,554,007</b>
<b>Other assets</b>		
a) Receivables due from others	1,554,461	436,862
b) Receivables due from parent company	133,334	393,434
c) Receivables due tax authorities for IRAP payment on account	-	183,840
<b>Total other assets</b>	<b>1,687,795</b>	<b>1,014,136</b>
<b>Total current assets</b>	<b>7,695,669</b>	<b>13,214,635</b>
<b>Total assets</b>	<b>106,033,326</b>	<b>97,622,311</b>

<b>Liabilities and shareholder's equity</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>Shareholders' equity</b>		
Share capital	23,020,000	23,020,000
Legal reserve	407,085	313,659
Other reserve	31,932,482	31,947,544
Retained earnings	88,442	2,313,351
Net profit (loss) for the period	2,335,435	1,868,517
<b>Total shareholders' equity</b>	<b>57,783,444</b>	<b>59,463,071</b>
<b>Non-current liabilities</b>		
<b>Non-current financial liabilities</b>		
Due to banks and financial institutions	18,478,161	20,348,113
<b>Total non-current financial liabilities</b>	<b>18,478,161</b>	<b>20,348,113</b>
Employee termination benefits and other provisions for employees	219,309	189,343
<b>Total employee termination benefits and other provisions for employees</b>	<b>219,309</b>	<b>189,343</b>
Deferred taxation provision	1,854	1,854
<b>Total deferred taxation provision</b>	<b>1,854</b>	<b>1,854</b>
<b>Current liabilities</b>		
<b>Current financial liabilities</b>		
Other financial liabilities	13,645,713	-
<b>Total current financial liabilities</b>	<b>13,645,713</b>	<b>-</b>
<b>Trade payables</b>		
Trade payables due to parent company	1,403,131	1,509,777
Trade payables due to Group companies	1,169,677	1,144,233
Trade payables	11,927,723	12,850,514
Other liabilities	705	25,011
<b>Total trade payables</b>	<b>14,501,235</b>	<b>15,529,535</b>
<b>Current tax liabilities</b>		
Tax and social security liabilities	305,557	282,588
Due to tax authorities for IRAP	-	299,763
Due to tax authorities for VAT	-	98,638
<b>Current tax liabilities</b>	<b>305,557</b>	<b>680,989</b>
<b>Other liabilities</b>		
Due to parent company for IRES	830,458	1,222,587
Due to others	30,522	27,296
Due to employees	237,073	159,525
<b>Total other liabilities</b>	<b>1,098,052</b>	<b>1,409,408</b>
<b>Total current liabilities</b>	<b>29,550,558</b>	<b>17,619,932</b>
<b>Total liabilities</b>	<b>48,249,882</b>	<b>38,159,242</b>
<b>Total liabilities and shareholders' equity</b>	<b>106,033,326</b>	<b>97,622,311</b>



## INCOME STATEMENT

Income statement	31/12/2017	31/12/2016
Revenues	33,450,912	31,543,437
Other income	3,028,467	1,649,817
<b>Total operating revenue and income</b>	<b>36,479,379</b>	<b>33,193,255</b>
Purchases of materials and external services	61,645	38,807
Personnel expenses	3,589,470	3,508,964
Other operating expenses	24,683,528	21,930,313
<b>Operating income before depreciation and amortization</b>	<b>8,144,737</b>	<b>7,715,172</b>
<i>Depreciation, amortization and provisions</i>		
Depreciation	3,687,061	2,695,977
Amortization	298,564	638,573
Provisions	12,928	32,213
<b>Operating income</b>	<b>4,146,184</b>	<b>4,348,409</b>
Financial income	21,923	21,169
Financial expense	915,542	987,661
<b>Profit before tax from continuing operations</b>	<b>3,252,565</b>	<b>3,381,917</b>
Income tax expense for the period	(917,130)	(1,513,400)
<b>Net profit for the period</b>	<b>2,335,435</b>	<b>1,868,517</b>
Other comprehensive income	(15,061)	(5,404)
<b>Total comprehensive income for the period</b>	<b>2,320,374</b>	<b>1,863,113</b>

## BCC CREDITOCONSUMO - FINANCIAL STATEMENTS

### BALANCE SHEET

	<b>Assets</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10.	Cash and cash equivalents	30,167	42,146
40.	Financial assets held for sale	30,000	30,000
60.	Due from banks	8,886,944	556,841
70.	Loans to customers	923,537,301	915,649,880
100.	Property and equipment	41,264	57,342
110.	Intangible assets	28,595	50,126
130.	Tax assets	9,296,207	10,568,657
	a) current	6,178	424,212
	b) deferred	9,290,029	10,144,445
140.	Other assets	3,335,080	4,726,714
	<b>Total assets</b>	<b>945,185,558</b>	<b>931,681,706</b>

<b>Liabilities and shareholders' equity</b>		<b>31/12/2017</b>	<b>31/12/2016</b>
10.	Due to banks	736,594,741	671,493,170
20.	Due to customers	121,952,433	177,475,149
70.	Value adjustments of macro-hedged financial liabilities (+/-)		
80.	Tax liabilities	295,667	
	a) current	294,606	
	b) deferred	1,061	
100.	Other liabilities	16,782,606	19,528,844
110.	Employee termination benefits	161,450	139,000
120.	Provisions for risks and charges	23,682	
	a) post-employment benefits		
	b) other provisions	23,682	
130.	Valuation reserves	2,798	(6,607)
160.	Reserves	12,672,150	12,175,019
180.	Share capital	46,000,000	41,000,000
200.	Net profit (loss) for the period (+/-)	10,700,031	9,877,131
<b>Total liabilities and shareholders' equity</b>		<b>945,185,558</b>	<b>931,681,706</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
10. Interest and similar income	65,718,163	63,761,171
20. Interest and similar expense	(19,907,808)	(22,511,816)
<b>Net interest income</b>	<b>45,810,355</b>	<b>41,249,355</b>
40. Fee and commission income	4,534,586	5,887,039
50. Fee and commission expense	(2,315,637)	(3,280,172)
<b>Net fee and commission income (expense)</b>	<b>2,218,949</b>	<b>2,606,867</b>
100. Net gain (loss) on the disposal or repurchase of:	(111,278)	(220,730)
a) loans	(111,278)	(220,730)
<b>Gross income</b>	<b>47,918,026</b>	<b>43,635,492</b>
130. Net losses/recoveries on impairment	(16,579,805)	(13,464,174)
a) loans	(16,579,805)	(13,464,174)
<b>Net income (loss) from financial operations</b>	<b>31,338,221</b>	<b>30,171,318</b>
150. Administrative expenses:	(18,835,188)	(19,322,811)
a) personnel expenses	(4,183,178)	(3,531,901)
b) other administrative expenses	(14,652,010)	(15,790,910)
170. Net adjustments of property and equipment	(22,289)	(37,214)
180. Net adjustments of intangible assets	(21,531)	(28,333)
190. Other operating expenses/income	3,130,275	3,274,099
<b>Profit (loss) before tax on continuing operations</b>	<b>15,589,488</b>	<b>14,057,059</b>
260. Income tax expense from continuing operations	(4,889,457)	(4,179,928)
<b>Profit (loss) after tax on continuing operations</b>	<b>10,700,031</b>	<b>9,877,131</b>
<b>290. Net profit (loss) for the period</b>	<b>10,700,031</b>	<b>9,877,131</b>

## BANCA SVILUPPO - FINANCIAL STATEMENTS

## BALANCE SHEET

Assets		31/12/2017	31/12/2016
10.	Cash and cash equivalents	12,102,404	14,794,688
20.	Financial assets held for trading	1,316,081	2,913,951
40.	Financial assets held for sale	122,617,990	136,148,789
50.	Financial assets held to maturity	300,355,724	1,119,633,357
60.	Due from banks	282,621,466	542,759,130
70.	Loans to customers	776,750,348	1,284,771,086
80.	Hedging derivatives	247,944	712,418
110.	Property and equipment	56,077,490	68,579,107
120.	Intangible assets	1,259,317	1,265,436
	of which: - goodwill	1,157,604	1,157,604
130.	Tax assets	54,788,876	56,392,066
	a) current	51,296,845	52,449,203
	b) deferred	3,492,031	3,942,863
	b1) of which L. 214/2011	3,196,517	3,490,449
140.	Non-current assets and disposal groups held for sale	220,326,906	-
150.	Other assets	55,032,527	58,478,492
	<b>Total assets</b>	<b>1,883,497,072</b>	<b>3,286,448,522</b>
Liabilities and shareholders' equity		31/12/2017	31/12/2016
10.	Due to banks	50,623,433	849,834,351
20.	Due to customers	1,065,927,652	1,554,855,244
30.	Securities issued	249,066,438	586,902,638
50.	Financial liabilities at fair value	492,130	21,389,236
60.	Hedging derivatives	40,095	73,060
80.	Tax liabilities	912,700	1,188,258
	a) current		34,404
	b) deferred	912,700	1,153,854
90.	Liabilities associated with assets held for sale	282,047,467	
100.	Other liabilities	65,301,427	89,140,063
110.	Employee termination benefits	5,551,513	7,699,708
120.	Provisions for risks and charges	26,467,439	38,061,093
	b) other provisions	26,467,439	38,061,093
130.	Valuation reserves	819,300	1,309,646
160.	Reserves	3,305,138	2,248,338
170.	Share premium reserve	178,403	178,403
180.	Share capital	132,511,683	132,511,683
200.	Net profit (loss) for the period (+/-)	252,252	1,056,800
	<b>Total liabilities and shareholders' equity</b>	<b>1,883,497,072</b>	<b>3,286,448,522</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
10. Interest and similar income	50,391,856	55,107,790
20. Interest and similar expense	(16,058,709)	(21,719,022)
<b>30. Net interest income</b>	<b>34,333,148</b>	<b>33,388,768</b>
40. Fee and commission income	21,418,577	24,002,085
50. Fee and commission expense	(2,474,885)	(2,314,210)
<b>60. Net fee and commission income (expense)</b>	<b>18,943,692</b>	<b>21,687,875</b>
70. Dividends and similar income	9,055	187,960
80. Net gain (loss) on trading activities	(1,111,066)	(596,192)
90. Net gain (loss) on hedging activities	(48,551)	(445,703)
100. Net gain (loss) on the disposal or repurchase of:	7,805,884	2,228,811
a) loans	5,875	463,346
b) financial assets held for sale	27,558	1,780,622
c) financial assets held to maturity	6,831,898	
d) financial liabilities	940,554	(15,158)
110. Net gain (loss) on financial assets and liabilities designated as at fair value	29,975	(146,301)
<b>120. Gross income</b>	<b>59,962,137</b>	<b>56,305,217</b>
130. Net losses/recoveries on impairment	(9,123,715)	(701,401)
a) loans	(9,105,769)	(701,401)
d) other financial transactions	(17,946)	
<b>140. Net income (loss) from financial operations</b>	<b>50,838,422</b>	<b>55,603,816</b>
150. Administrative expenses:	(61,600,424)	(60,214,327)
a) personnel expenses	(31,304,135)	(31,367,983)
b) other administrative expenses	(30,296,289)	(28,846,344)
160. Net provisions for risks and charges	1,628,998	63,937
170. Net adjustments of property and equipment	(2,248,540)	(2,453,005)
180. Net adjustments of intangible assets	(64,960)	(45,696)
190. Other operating expenses/income	6,791,760	8,423,051
<b>200. Operating expenses</b>	<b>(55,493,166)</b>	<b>(54,226,039)</b>
240. Profit (loss) from disposal of investments	4,983,761	(19,250)
<b>250. Profit (loss) before tax on continuing operations</b>	<b>329,016</b>	<b>1,358,527</b>
260. Income tax expense from continuing operations	(76,764)	(301,727)
<b>270. Profit (loss) after tax on continuing operations</b>	<b>252,252</b>	<b>1,056,800</b>
<b>290. Net profit (loss) for the period</b>	<b>252,252</b>	<b>1,056,800</b>

## SECURFONDO - PERFORMANCE AND FINANCIAL POSITION

## BALANCE SHEET

ASSETS	31/12/2017	31/12/2016
A Financial instruments	2,118,313	1,777,429
B Property and property rights	23,548,000	25,171,000
D Bank deposits	1,500,001	14,028,866
F Net liquidity position	4,178,558	27,388,261
G Other assets	394,949	6,511,474
<b>Total assets</b>	<b>31,739,821</b>	<b>74,877,030</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2017	31/12/2016
M Other liabilities	633,846	1,965,762
Total net value of Fund	31,105,975	72,911,268
<b>Total</b>	<b>31,739,821</b>	<b>74,877,030</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
A Financial instruments	(362,887)	(2,596,264)
B Property and property rights	(1,663,474)	(22,925,223)
D Bank deposits	3,290	22,151
I Management expense	(371,757)	(794,685)
L Other revenue and charges	189,535	385,221
<b>290. Profit (loss) for the period</b>	<b>(2,205,293)</b>	<b>(25,908,800)</b>

## SATISPAY - FINANCIAL STATEMENTS

## BALANCE SHEET

	Assets	31/12/2017	31/12/2016
B)	NON-CURRENT ASSETS		
I)	INTANGIBLES	1,192,558	1,115,211
II)	PROPERTY AND EQUIPMENT	136,407	134,803
III)	FINANCIAL	4,500,000	1,025,000
	<b>TOTAL NON-CURRENT ASSETS B)</b>	<b>5,828,965</b>	<b>2,275,014</b>
C)	CURRENT ASSETS		
II)	RECEIVABLES	10,183,163	1,277,296
I)	due from customers	1,410,183	546,569
IV)	cash and cash equivalents	8,772,980	730,727
	<b>TOTAL CURRENT ASSETS C)</b>	<b>10,183,163</b>	<b>1,277,296</b>
D)	ACCRUALS AND DEFERRALS		
	-ACCRUALS AND DEFERRALS	349,502	31,611
	<b>TOTAL ACCRUALS AND DEFERRALS D)</b>	<b>349,502</b>	<b>31,611</b>
	<b>Total</b>	<b>16,361,630</b>	<b>3,583,921</b>

	Liabilities	31/12/2017	31/12/2016
A)	SHAREHOLDERS' EQUITY		
I	SHARE CAPITAL	501,736	344,461
II	SHARE PREMIUM RESERVE	20,421,126	5,621,169
VI	OTHER RESERVES	18,502	18,501
IX	NET PROFIT (LOSS) FOR THE PERIOD	(6,141,733)	(3,362,273)
	<b>TOTAL SHAREHOLDERS' EQUITY (A)</b>	<b>14,799,631</b>	<b>2,621,858</b>
C	EMPLOYEE TERMINATION BENEFITS	116,105	80,701
	<b>TOTAL EMPLOYEE TERMINATION BENEFITS (C)</b>	<b>116,105</b>	<b>80,701</b>
D	PAYABLES		
	FALLING DUE WITHIN SUBSEQUENT YEAR	865,889	692,990
	FALLING DUE BEYOND SUBSEQUENT YEAR	298,040	-
	<b>TOTAL PAYABLES ( D)</b>	<b>1.163.929</b>	<b>692.990</b>
E	ACCRUALS AND DEFERRALS	281,965	188,372
	<b>TOTAL ACCRUALS AND DEFERRALS (E)</b>	<b>281,965</b>	<b>188,372</b>
	<b>Total liabilities and shareholders' equity</b>	<b>16,361,630</b>	<b>3,583,921</b>



## INCOME STATEMENT

Income statement	31/12/2017	31/12/2016
A) Value of production		
1) Revenues from sales and services	3,196,549	240,657
4) Increase in non-current assets for internal projects	662,024	766,996
5) Other revenues and income:		
- sundry	141,748	85,150
<b>Total value of production (A)</b>	<b>4,000,321</b>	<b>1,092,803</b>
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	2,061,604	27,420
7) Services	5,573,157	2,430,818
8) Leaseholds	260,109	161,283
9) Personnel		
a) Wages and salaries	1,243,543	1,054,709
b) Social security contributions	263,254	189,092
c) Employee termination benefits	78,241	72,060
e) Other costs	10,317	750
10) Depreciation, amortization and impairment losses	626,731	383,746
a) Amortization	593,677	357,101
b) Depreciation	33,054	26,645
14) Other operating expenses	27,603	156,925
<b>Total costs of production (B)</b>	<b>10,144,559</b>	<b>4,477,003</b>
<b>Difference between value and cost of production (A-B)</b>	<b>(6,144,238)</b>	<b>(3,384,200)</b>
C) Financial income and expense		
16) Other financial income:		
d) other:	44,850	22,942
17) Interest and other financial charges:	40,006	84
17-bis) Exchange gains and losses	(2,339)	(481)
<b>Total financial income and expense (C)</b>	<b>2,505</b>	<b>21,927</b>
<b>Profit (loss) before taxes (A - B + - C + - D)</b>	<b>(6,141,733)</b>	<b>(3,362,273)</b>
20) Income tax expense for the period, current, deferred and prepaid		
a) current taxes		
c) deferred taxes		
<b>21) Profit (loss) for the period</b>	<b>(6,141,733)</b>	<b>(3,362,273)</b>

## M-FACILTY S.P.A. FINANCIAL STATEMENTS

## BALANCE SHEET

Assets	31/12/2017	31/12/2016
<b>Intangible assets</b>	<b>403,303</b>	<b>895,475</b>
<b>Formation and expansion costs</b>	<b>9,417</b>	<b>28,253</b>
Corporate expenses	8,917	26,753
Formation and expansion costs	500	1,500
<b>Intangible property</b>	<b>314,436</b>	<b>628,871</b>
Capitalized internal software development costs	280,350	560,700
Concessions and licenses	34,086	68,171
<b>Capitalized costs</b>	<b>79,450</b>	<b>238,350</b>
Development costs	64,960	194,880
Other capitalized costs	14,490	43,470
<b>Tangible assets</b>	<b>6,380</b>	<b>5,447</b>
<b>Other tangible assets</b>	<b>6,380</b>	<b>5,447</b>
Electronic office machinery	5,447	5,447
Mobile telephony equipment	932	-
<b>Sundry receivables</b>	<b>164,753</b>	<b>1,984</b>
<b>Advances to suppliers</b>	<b>2,955</b>	<b>2,142</b>
Advances to third-party suppliers	2,955	2,142
<b>Sundry third-party receivables</b>	<b>161,784</b>	<b>(166)</b>
Receivables from shareholders	162,000	(166)
Advances – director	(216)	-
<b>Receivables from employees</b>	<b>14</b>	<b>9</b>
Employees – rounding	14	9
<b>Cash and cash equivalents</b>	<b>38,145</b>	<b>39,612</b>
<b>Bank and postal current accounts</b>	<b>38,145</b>	<b>39,612</b>
Bank current accounts	38,145	39,612
<b>Profit (loss) for the year</b>	<b>9</b>	<b>648,055</b>
<b>Retained earnings (loss carryforward)</b>	<b>9</b>	<b>648,055</b>
Loss carryforward	9	648,055
<b>Tax authorities</b>	<b>164,144</b>	<b>147,166</b>
<b>Tax authorities – VAT</b>	<b>95,847</b>	<b>78,869</b>
Tax authorities – VAT settlement	95,847	78,869
<b>Tax authorities – withholding tax and receivables</b>	<b>3</b>	<b>3</b>
Withholdings on interest income	3	3
<b>Tax authorities – taxes</b>	<b>68,294</b>	<b>68,294</b>
IRES receivables for tax prepayments	68,294	68,294
<b>Social security institutions</b>	<b>-</b>	<b>1</b>
INPS – associates	-	1
<b>Total assets</b>	<b>776,734</b>	<b>1,737,741</b>
<b>Loss for period</b>	<b>461,890</b>	<b>236,651</b>
<b>Total</b>	<b>1,238,624</b>	<b>1,974,392</b>

<b>Liabilities and shareholders' equity</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>Cash and cash equivalents</b>	<b>726</b>	<b>-</b>
<b>Bank and postal current accounts</b>	<b>726</b>	<b>-</b>
Bank current accounts	726	-
<b>Share capital and reserves</b>	<b>745,280</b>	<b>1,879,000</b>
Share capital	745,280	1,879,000
<b>Provision for employee severance benefits</b>	<b>4,834</b>	<b>613</b>
Provision for employee severance benefits	4,834	613
<b>Third-party loans</b>	<b>400,000</b>	<b>-</b>
<b>Loans and financing</b>	<b>400,000</b>	<b>-</b>
Non-interest-bearing shareholder loans	400,000	-
<b>Trade payables</b>	<b>73,894</b>	<b>90,577</b>
<b>Invoices/credit notes to be received</b>	<b>28,987</b>	<b>48,957</b>
Invoices to be received from third-party suppliers	28,987	48,957
<b>Suppliers</b>	<b>44,907</b>	<b>41,621</b>
Third-party suppliers - Italy	44,907	41,621
<b>Tax authorities</b>	<b>4,704</b>	<b>1,177</b>
<b>Tax authorities – withholding agent</b>	<b>4,704</b>	<b>1,177</b>
Tax authorities – withholdings on employment income	1,193	876
Tax authorities – withholdings on self-employment income, agents, representatives	2,209	301
Tax authorities – withholdings on associates	1,303	-
<b>Social security institutions</b>	<b>4,472</b>	<b>856</b>
INPS employees	1,473	856
INPS associated	2,999	-
<b>Other payables</b>	<b>1,870</b>	<b>1,648</b>
<b>Sundry payables</b>	<b>493</b>	<b>256</b>
Payables to directors	165	(72)
Sundry payables to third parties	327	327
<b>Payables to employees</b>	<b>1,378</b>	<b>1,392</b>
Employees – remuneration	1,366	1,385
Employees – rounding	12	7
<b>Accumulated depreciation – property</b>	<b>2,844</b>	<b>520</b>
<b>Accumulated depreciation - other</b>	<b>2,844</b>	<b>520</b>
Accumulated depreciation - electronic office machinery	2,657	520
Accumulated depreciation – mobile telephony equipment	186	-
<b>Total liabilities</b>	<b>1,238,624</b>	<b>1,974,392</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
<b>Purchases of goods</b>	<b>300</b>	<b>802</b>
<b>Purchases for production of goods and for resale</b>	<b>137</b>	<b>41</b>
Purchases of consumables	137	41
<b>Sundry purchases</b>	<b>164</b>	<b>761</b>
Office supplies	164	761
<b>Acquisition of services</b>	<b>2,800</b>	<b>2,289</b>
<b>Production services</b>	<b>1,440</b>	<b>1,000</b>
Other production services	1,440	1,000
<b>Ancillary costs of purchases</b>	<b>258</b>	<b>460</b>
<b>Transport for purchases</b>	<b>258</b>	<b>460</b>
Third-party transport (services)	258	460
<b>Utilities</b>	<b>1,102</b>	<b>829</b>
Mobile telephony	1,032	829
Network services	70	-
<b>Motor pool management</b>	<b>-</b>	<b>97</b>
<b>Operation of automobiles and other</b>	<b>-</b>	<b>97</b>
<b>Vehicle fuels and lubricants</b>	<b>-</b>	<b>97</b>
Non-deductible fuels and lubricants	-	97
<b>Non-payroll employment services</b>	<b>131,473</b>	<b>165,623</b>
<b>Self-employment services</b>	<b>108,381</b>	<b>100,948</b>
Administrative and tax consulting	7,280	6,170
Legal consulting	1,866	13,500
Notary consulting	6,450	2,749
Sundry consulting/services	78,000	76,425
Reimbursement of expenses – self employment	13,623	808
Reimbursement of expenses – self-employment pertaining to core business	-	271
Reimbursement of expenses – self-employment not pertaining to core business	13,623	537
Contributions to self-employment social security funds	1,162	1,296
<b>Remuneration – corporate bodies</b>	<b>23,092</b>	<b>64,675</b>
<b>Remuneration – directors</b>	<b>-</b>	<b>36,875</b>
Remuneration – admin. non-shareholder professionals	-	6,875
Remuneration – admin. Associates	-	30,000
<b>Social security contributions – directors</b>	<b>92</b>	<b>4,800</b>
<b>Remuneration – control bodies</b>	<b>23,000</b>	<b>23,000</b>
Remuneration board of auditors	15,000	15,000
Remuneration audit firm	8,000	8,000
<b>Administrative, commercial and entertainment expenses</b>	<b>14,942</b>	<b>8,725</b>
<b>Commercial and travel expenses</b>	<b>14,667</b>	<b>8,725</b>
Advertising	754	46
Accommodation and meals	8,328	2,963
Travel expenses	5,585	5,716
<b>Entertainment expenses</b>	<b>275</b>	<b>-</b>
Entertainment expenses	275	-
<b>Rentals and leases</b>	<b>18,136</b>	<b>18,223</b>
<b>Property management</b>	<b>18,000</b>	<b>18,000</b>
Deductible property rent	18,000	18,000
<b>Vehicle leasing and other</b>	<b>136</b>	<b>223</b>
Vehicle leasing	136	223
<b>Payroll employee expenses</b>	<b>31,757</b>	<b>28,293</b>
<b>Gross remuneration</b>	<b>28,395</b>	<b>27,812</b>
Gross remuneration ordinary employees	28,395	27,812
<b>INPS contributions</b>	<b>1,010</b>	<b>442</b>
INPS contributions - ordinary employees	1,010	442
Employee severance benefit contributions	2,160	-
INAIL premiums	192	39

<b>Sundry operating expenses</b>	<b>7,409</b>	<b>4,753</b>
<b>Tax charges</b>	<b>737</b>	<b>687</b>
Chamber of Commerce fees	120	121
Registration fees, stamp duty, government concession fees	616	566
<b>Other operating costs</b>	<b>6,672</b>	<b>4,066</b>
Expenses, losses and prior-year losses	6,672	2,503
Association dues	-	23
Sundry rounding	1	1
Prior-year costs	-	1,539
<b>Finance charges</b>	<b>7,785</b>	<b>7,847</b>
<b>Finance charges - banks</b>	<b>285</b>	<b>347</b>
Bank fees and commissions	285	347
<b>Sundry finance charges</b>	<b>7,500</b>	<b>7,500</b>
Sundry finance charges	7,500	7,500
<b>Depreciation and amortization</b>	<b>247,362</b>	<b>-</b>
<b>Amortization of intangibles</b>	<b>246,086</b>	<b>-</b>
Amortization - corporate expenses	8,918	-
Amortization - formation and expansion costs	500	-
Amortization - development costs	64,960	-
Amortization - concessions, licenses	17,043	-
Amortization - capitalized software development costs	140,175	-
Amortization - other capitalized costs	14,490	-
<b>Depreciation of tangible assets</b>	<b>1,276</b>	<b>-</b>
Depreciation (ordinary) - electronic office machinery	1,089	-
Depreciation (ordinary) - mobile telephony	186	-
Depreciation (ordinary) - mobile telephony	186	-
<b>Total costs</b>	<b>461,963</b>	<b>236,652</b>

	31/12/2017	31/12/2016
<b>Revenue from sales and production</b>	<b>62</b>	<b>-</b>
<b>Revenue from services</b>	<b>62</b>	<b>-</b>
Delivery of services	62	-
<b>Other revenue and income</b>	<b>11</b>	<b>2</b>
<b>Sundry income</b>	<b>11</b>	<b>2</b>
Rounding	11	2
<b>Total revenues</b>	<b>73</b>	<b>2</b>
<b>Loss for the period</b>	<b>461,890</b>	<b>236,651</b>
<b>Total</b>	<b>461,963</b>	<b>236,652</b>

## HI-MTF – FINANCIAL STATEMENTS

### BALANCE SHEET

<b>ASSETS</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
10. Cash and cash equivalents	230	135
40. Financial assets held for sale	1,520,244	0
60. Receivables	4,920,081	6,397,638
100. Equity investments	15,533	20,345
110. Property and equipment	118,658	140,207
120. Tax assets	102,607	116,166
a) current	86,019	102,416
b) deferred	16,588	13,750
140. Other assets	127,024	78,616
<b>TOTAL ASSETS</b>	<b>6,804,378</b>	<b>6,753,107</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
90. Other liabilities	368,204	383,821
100. Post-employment benefits	187,307	202,096
120. Share capital	5,000,000	5,000,000
160. Reserves	1,174,874	1,103,669
170. Valuation reserves	(3,297)	(7,864)
180. Net profit (loss) for the period (+/-)	74,148	71,205
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>6,804,378</b>	<b>6,753,107</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
10. Interest and similar income	55,260	59,881
20. Interest and similar expense	(75)	0
40. Fee and commission income	2,490,194	2,616,652
50. Fee and commission expense	(2,610)	(4,294)
<b>Gross income</b>	<b>2,542,769</b>	<b>2,672,239</b>
110. Administrative expenses:	(2,347,997)	(2,484,328)
a) personnel expenses	(997,234)	(1,048,023)
b) other administrative expenses	(1,350,763)	(1,436,305)
120. Net adjustments of property and equipment	(4,956)	(6,029)
130. Net adjustments of intangible assets	(78,469)	(53,305)
160. Other operating expenses/income	32,257	(17,824)
<b>250. Profit (loss) before tax on continuing operations</b>	<b>143,604</b>	<b>110,753</b>
190. Income tax expense from continuing operations	(69,455)	(39,548)
Profit (loss) after tax on continuing operations	74,148	71,205
<b>Net profit (loss) for the period</b>	<b>74,148</b>	<b>71,205</b>

## BCC VITA – FINANCIAL STATEMENTS

### BALANCE SHEET

<b>Assets</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
B. Intangibles	5,801	11,602
5. Other capitalized costs	5,801	11,602
C. Investments	2,459,647,343	2,348,587,077
II - investments in Group companies and other investees	2,563	2,563
1. Shares and other equity instruments:	2,563	2,563
c) associated companies	1,000	1,000
e) other	1,563	1,563
III - other financial investments	2,459,644,780	2,348,584,515
1. Shares and other equity instruments	25,290	25,290
2. Units of investment funds	32,135,235	33,561,098
3. Bonds and other fixed-income securities	2,427,423,614	2,314,853,346
a) listed	2,406,049,027	2,285,981,233
b) unlisted	21,374,588	28,872,113
7. Other financial investments	60,641	144,781
D Investments for the benefit of life insurance policyholders who bear the investment risk and related to the operation of pension funds	336,761,857	250,451,647
I - investments related to contracts linked to investment funds and market indices	336,761,857	250,451,647
D bis. Reinsurers share of technical provisions	28,204,422	30,254,504
ii – life insurance	28,204,422	30,254,504
1. Mathematical provisions	25,045,192	27,304,299
3. Provision for claims outstanding	2,845,231	2,944,200
4. Provision for profit sharing and premium refunds	313,998	6,006
E. Receivables	41,460,429	35,360,821
I - receivables from direct insurance operations in respect of:	3,094,239	3,295,668
1. Policyholders	480,896	342,143
a) for premiums – current year	318,543	329,203
b) for premiums – previous years	162,354	12,940
2. Insurance intermediaries	2,613,343	2,953,525
II - receivables from reinsurance operations in respect of:	28,425	28,425
- associated companies	28,425	28,425
1. Insurance and reinsurance undertakings	28,425	28,425
III - other receivables	38,337,765	32,036,728
F. Other assets	17,395,007	14,649,679
I - Tangible assets and inventories:	21,562	33,569
1. Furniture, office machinery and internal transport equipment	14,213	14,890
2. Movable assets entered in public registers	7,349	18,680
II - cash and cash equivalents	6,744,265	4,948,633
1. Bank deposits and postal current accounts	6,743,854	4,948,250
2. Checks and cash on hand	410	383
IV - other	10,629,181	9,667,477
2. Sundry assets	10,629,181	9,667,477
G. Accrued income and prepayments	17,246,689	16,818,400
1. Interest	17,190,049	16,786,315
3. Other accrued income and prepayments	56,641	32,085
<b>Total assets</b>	<b>2,900,721,549</b>	<b>2,696,133,731</b>



<b>Liabilities and shareholders' equity</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>A. SHAREHOLDERS' EQUITY</b>	<b>168,232,536</b>	<b>156,805,815</b>
I - Paid-in share capital or equivalent fund	62,000,000	62,000,000
IV - Statutory reserve	4,334,773	3,882,012
VII - Other reserves	83,969,065	73,969,065
VIII - Retained earnings (loss carryforward)	7,945,978	7,899,511
IX - Profit (loss) for the year	9,982,721	9,055,228
<b>C. TECHNICAL PROVISIONS</b>	<b>2,369,409,992</b>	<b>2,257,929,506</b>
<b>II - LIFE INSURANCE</b>	<b>2,369,409,992</b>	<b>2,257,929,506</b>
1. Mathematical provisions	2,340,541,520	2,224,287,980
2. Unearned premium provision for supplementary coverage	1,414	1,421
3. Provision for claims outstanding	15,544,516	21,429,246
4. Provision for profit sharing and premium refunds	1,226,931	614,712
5. Other technical provisions	12,095,610	11,596,146
<b>D. TECHNICAL PROVISIONS FOR POLICIES WHERE INVESTMENT RISK IS BORNE BY POLICYHOLDERS AND RESERVES RELATED TO THE OPERATION OF PENSION FUNDS</b>	<b>336,761,857</b>	<b>250,451,647</b>
I - Provisions for policies whose benefits are linked to investment funds and Market indices	336,761,857	250,451,647
<b>E. PROVISIONS FOR RISKS AND CHARGES</b>	<b>1,100,811</b>	<b>1,045,040</b>
3. Other provisions	1,100,811	1,045,040
<b>F. DEPOSITS RECEIVED FROM REINSURERS</b>	<b>1,362,852</b>	<b>0</b>
<b>G. PAYABLES AND OTHER LIABILITIES</b>	<b>23,853,501</b>	<b>29,901,723</b>
I - Payables from direct insurance operations in respect of:	2,399,726	5,030,641
1. Insurance intermediaries	2,287,919	5,020,004
3. Policyholders for security deposits and premiums	111,807	10,636
II - Payables from reinsurance operations in respect of:	2,954,568	4,157,807
1. Insurance and reinsurance undertakings	2,954,568	4,157,807
VII - Employee severance benefits	24,991	48,916
VIII - Other payables	18,470,996	20,662,688
2. Sundry tax liabilities	11,390,513	11,491,184
3. Social security and pension institutions	150,556	161,779
4. Sundry payables	6,929,928	9,009,725
IX - Other	3,219	1,671
2. Commissions for premiums being collected	3,090	1,543
3. Sundry liabilities	128	128
<b>Total liabilities and shareholders' equity</b>	<b>2,900,721,549</b>	<b>2,696,133,731</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
<b>I. TECHNICAL ACCOUNT – NON-LIFE BUSINESS</b>		
<b>10. Balance on technical account – non-life business (item III. 1)</b>	-	-
<b>II. TECHNICAL ACCOUNT – LIFE BUSINESS</b>		
1. Premiums written, net of reinsurance:	320,556,356	312,444,313
A) gross premiums written	324,849,664	318,024,169
B) (-) outward reinsurance premiums	4,293,308	5,579,856
2. Investment income:	84,487,801	82,252,954
A) income from shares and other equity instruments	1,753,138	1,428,668
B) income from other investments:	77,781,304	69,587,440
bb) from other investments	77,781,304	69,587,440
C) writebacks of writedowns of investments	999,133	3,475,989
D) gains on realization of investments	3,954,226	7,760,857
3. Income and unrealized gains on investments for the benefit of life insurance policyholders who bear the investment risk and investments connected with the operation of pension funds	19,388,236	9,529,309
4. Other technical income, net of reinsurance	1,386,539	9,345
5. Claims incurred, net of reinsurance:		
A) claims paid	161,915,073	143,871,391
aa) gross amount	164,134,314	146,139,634
bb) (-) reinsurers' share	2,219,241	2,268,243
B) Change in provision for claims outstanding	-5,785,761	2,762,893
aa) gross amount	-5,884,729	3,271,825
bb) (-) reinsurers' share	-98,968	508,932
6. Change in mathematical provisions and other technical provisions	205,322,313	198,207,360
Net of reinsurance		
A) mathematical provisions:	118,512,646	119,091,100
aa) gross amount	116,253,540	120,337,957
bb) (-) reinsurers' share	-2,259,106	1,246,857
B) unearned premium provision for supplementary coverage:	-7	-167
aa) gross amount	-7	-167
C) other technical provisions	499,464	-911,671
aa) gross amount	499,464	-911,671
D) technical provisions for policies where the investment risk is borne by Policyholders and relating to the operation of pension funds	86,310,210	80,028,097
aa) gross amount	86,310,210	80,028,097
bb) (-) reinsurers' share	0	0
7. Premium refunds and profit sharing, net of reinsurance	304,227	-39,943
8. Operating expenses:	14,850,546	16,661,669
A) acquisition commissions	8,115,940	9,382,541
B) other acquisition costs	1,791,595	3,082,356
D) collection commissions	123,871	119,997
E) other administrative expenses	4,694,184	4,860,313
F) (-) Commissions and profit sharing from reinsurers	-124,956	783,538
9. Investment charges:	21,482,816	16,118,990
A) investment administration charges and interest expense	16,977,476	11,067,834
B) value adjustments of investments	2,559,388	4,385,831
C) losses on realization of investments	1,945,952	665,326
10. Expenses and unrealized losses on investments	5,573,442	5,367,832
11. Other technical charges, net of reinsurance	9,288,312	7,138,607
12. (-) investment gains transferred to non-technical account (item III. 4)	4,184,588	4,046,477
<b>13. Balance on technical account – life business (voce III. 2)</b>	<b>8,683,375</b>	<b>10,100,645</b>
<b>III. NON-TECHNICAL ACCOUNT</b>		
1. Balance on technical account – non-life business (item I. 10)	-	-
2. Balance on technical account –life business (item II. 13)	8,683,375	10,100,645
4. (+) investment gains transferred from technical account – life business (item II. 12)	4,184,588	4,046,477
7. Other income	197,771	158,934
8. Other charges	259,959	480,661

<b>9. Profit (loss) from ordinary business</b>	<b>12,805,775</b>	<b>13,825,395</b>
10. Extraordinary income	2,558,492	1,091,306
11. Extraordinary charges	623,155	688,345
<b>12. Profit (loss) from extraordinary business</b>	<b>1,935,336</b>	<b>402,961</b>
<b>13. Income before taxes</b>	<b>14,741,112</b>	<b>14,228,357</b>
14. Income taxes	4,758,391	5,173,128
<b>15. Net profit (loss) for the year</b>	<b>9,982,721</b>	<b>9,055,228</b>

## BCC ASSICURAZIONI – FINANCIAL STATEMENTS

## BALANCE SHEET

<b>ASSETS</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
C. INVESTMENTS	29,446,974	24,742,206
- Investments in Group companies and other investees	44,589	44,589
c) associated companies	44,589	44,589
e) other companies	1,710	1,710
- Investments in Group companies and other investees	42,879	42,879
III - Altri investimenti finanziari	29,402,385	24,697,617
1. Shares and holdings	1,099,110	992,230
2. Units of mutual investment funds	785,517	892,682
3. Bonds and other fixed income securities	27,516,746	22,810,905
a) listed	27,516,746	22,810,905
7. Sundry financial investments	1,012	1,800
D bis. Reinsurers share of technical provisions	38,089,681	36,743,892
I - Life insurance	38,089,681	36,743,892
1. Premium provision	15,349,738	15,995,925
2. Provision for outstanding claims	22,357,269	20,198,995
4. Other technical provisions	382,674	548,972
E. RECEIVABLES	11,844,217	13,179,697
I- Receivables from direct insurance operations in respect of:	7,268,047	7,400,034
1. Policyholders	5,939,741	6,397,981
a) for premiums – current year	4,004,094	4,908,837
b) for premiums – previous years	1,935,647	1,489,144
2. Insurance brokers	915,110	604,419
3. Insurance companies - current accounts	309,572	336,113
4. Policyholders and third parties for sums to be recovered	103,624	61,521
II - Receivables from reinsurance operations in respect of:	1,422,851	1,333,435
1. Insurance and reinsurance undertakings	1,422,851	1,333,435
III - other receivables	3,153,319	4,446,228
F. Other assets	3,397,860	2,738,079
II - Cash and cash equivalents	1,416,782	1,040,060
1. Bank deposits and postal current accounts	1,416,605	1,039,883
2. Checks and cash on hand	177	177
IV - other	1,981,078	1,698,019
2. Sundry assets	1,981,078	1,698,019
G. Accrued income and prepayments	179,578	198,445
1. Interest	178,288	197,776
3. Other accrued income and prepayments	1,290	669
<b>Total assets</b>	<b>82,958,310</b>	<b>77,602,319</b>

<b>Liabilities and shareholders' equity</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>A. SHAREHOLDERS' EQUITY</b>	<b>11,199,852</b>	<b>12,067,392</b>
I - Paid-in share capital or equivalent fund	14,448,000	14,448,000
IV - Statutory reserve	-	356,269
VII - Other reserves	-	674,014
VIII - Retained earnings (loss carryforward)	-2,380,608	-1,139,081
IX - Profit (loss) for the year	-867,540	-2,271,810
<b>C. TECHNICAL PROVISIONS</b>	<b>56,697,439</b>	<b>49,989,973</b>
I - No-life insurance	56,697,439	49,989,973
1. Premium provision	26,783,007	23,767,046
2. Provision for outstanding claims	28,880,179	25,438,681
4. Other technical provisions	1,034,253	784,246
<b>E. PROVISIONS FOR RISKS AND CHARGES</b>	<b>68,119</b>	<b>56,039</b>
3. Other provisions	68,119	56,039
<b>F. DEPOSITS RECEIVED FROM REINSURERS</b>	<b>2,691,047</b>	<b>2,222,173</b>
<b>G. PAYABLES AND OTHER LIABILITIES</b>	<b>12,301,853</b>	<b>13,266,742</b>
I - Payables from direct insurance operations in respect of:	3,802,816	3,766,322
1. Insurance intermediaries	499,050	1,380,800
2. Insurance companies - current accounts	404,396	418,533
3. Policyholders for security deposits and premiums	2,703,601	1,803,255
4. Guarantee funds in favour of policyholders	195,769	163,734
II - Payables from reinsurance operations in respect of:	3,077,786	4,081,301
1. Insurance and reinsurance undertakings	3,077,786	4,081,301
VII - Employee severance benefits	25,451	22,691
VIII - Other payables	2,763,477	2,579,877
1. For taxes payable by policyholders	270,985	352,374
2. Sundry tax liabilities	19,638	36,209
3. Social security and pension institutions	16,404	15,430
4. Sundry payables	2,456,450	2,175,864
IX - Other	2,632,323	2,816,551
2. Commissions for premiums being collected	2,037,213	1,661,953
3. Sundry liabilities	595,110	1,154,598
<b>Total liabilities and shareholders' equity</b>	<b>82,958,310</b>	<b>77,602,319</b>

## INCOME STATEMENT

Income Statement	31/12/2017	31/12/2016
<b>I. TECHNICAL ACCOUNT – NON-LIFE CLASSES</b>		
1. PREMIUMS FOR THE YEAR, NET OF TRANSFERS UNDER REINSURANCE	15,457,642	12,495,691
a) Gross premiums written	37,803,348	34,685,028
b) (-)Ceded premiums	18,683,559	19,191,379
c) Change in gross premium provision	3,015,960	2,932,599
d) Change in premium provision - reinsurers' share	(646,187)	(65,359)
2. (+) PORTION OF PROFIT FROM INVESTMENT TRANSFERRED FROM THE NON-TECHNICAL ACCOUNTS (ITEM III. 6)	297,784	276,028
3. OTHER TECHNICAL INCOME, NET OF REINSURANCE	5,147,191	2,836,133
4. CLAIMS INCURRED, NET OF RECOVERIES AND REINSURANCE	5,079,434	5,076,655
a) Claims paid	4,081,627	3,253,416
aa) Gross amount	12,111,340	9,814,373
bb) (-)reinsurance amount	8,029,713	6,560,957
b) Change in recoveries net of reinsurers' share	126,646	71,239
aa) Gross amount	126,646	71,239
c) Change in provision for outstanding claims	1,124,453	1,894,478
aa) Gross amount	3,441,498	7,070,821
bb) (-)reinsurance amount	2,317,045	5,176,343
5. CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE	416,306	134,049
7. OPERATING EXPENSES:	11,580,660	10,852,255
a) Acquisition commissions	8,457,099	9,748,947
b) Other acquisition costs	2,111,782	1,694,114
d) Collection commission	2,069,792	1,378,591
e) Other administrative expenses	2,673,220	2,439,957
f) (-) Commission and profit-sharing received from re-insurers	3,731,233	4,409,354
8. OTHER TECHNICAL CHARGES, NET OF REINSURANCE	5,260,454	2,959,722
<b>10. RESULT OF TECHNICAL ACCOUNT - NON-LIFE BUSINESS (Item III. 1)</b>	<b>(1,434,237)</b>	<b>(3,414,829)</b>
<b>TECHNICAL ACCOUNT – LIFE BUSINESS</b>		
<b>13. BALANCE ON TECHNICAL ACCOUNT – LIFE BUSINESS (VOCE III. 2)</b>	-	-
<b>III. CONTO NON TECNICO</b>		
1. Balance on technical account – non-life business (item I. 10)	(1,434,237)	(3,414,829)
2. Balance on technical account –life business (item II. 13)	-	-
3. INVESTMENT INCOME IN THE NON-LIFE CLASSES	835,064	1,069,435
a) Income deriving from shares and holdings	55,698	45,891
b) Income deriving from other investments:	624,956	657,673
bb) from other investments	624,956	657,673
c) reversal of adjustment on investments	43,183	21,570
d) Profits on realisation of investments	111,227	344,301
5. Profits on realisation of investments	319,767	451,022
a) Charges for management of investments and interest expense	277,766	356,529
b) Adjustment on investments	16,618	58,848
c) Losses on realisation of investments	25,383	35,645
6. (-) PORTION OF PROFIT FROM INVESTMENTS TRANSFERRED TO THE TECHNICAL ACCOUNT - NON-LIFE CLASSES (Item I. 2)	297,784	276,028
7. Other income	39,457	15,137
8. Other charges	71,159	99,490
<b>9. PROFIT (LOSS) FROM ORDINARY BUSINESS</b>	<b>(1,248,426)</b>	<b>(3,156,797)</b>
10. Extraordinary income	113,439	97,852
11. Extraordinary charges	28,031	32,667
<b>12. PROFIT (LOSS) FROM EXTRAORDINARY BUSINESS</b>	<b>85,408</b>	<b>65,185</b>
<b>13. INCOME BEFORE TAXES</b>	<b>(1,163,018)</b>	<b>(3,091,612)</b>
14. Income taxes	(295,478)	(819,802)
<b>15. NET PROFIT (LOSS) FOR THE YEAR</b>	<b>(867,540)</b>	<b>(2,271,810)</b>

## BCC ACCADEMIA – FINANCIAL STATEMENTS

## BALANCE SHEET

Assets		31/12/2017	31/12/2016
B)	Non-current assets	3,644	4,978
II)	Property and equipment	3,644	4,978
C)	Current assets	2,440,563	2,159,838
II)	Receivables	1,366,327	1,560,948
1)	From customers	1,346,238	1,487,523
5-bis)	Tax receivables	12,726	26,062
5-ter)	Deferred taxes	7,363	47,363
IV)	Cash and cash equivalents	1,074,236	598,890
1)	Bank and postal deposits	1,072,565	598,819
3)	Cash and valuables on hand	1,671	71
D)	Accruals and deferrals	6,203	6,673
<b>Total assets</b>		<b>2,450,410</b>	<b>2,171,489</b>

Liabilities and shareholders' equity		31/12/2017	31/12/2016
A	Shareholders' equity	557,993	508,572
I)	Share capital	800,000	800,000
IV)	Legal reserve	8,355	7,925
VII)	Other reserves	857	857
VIII)	Retained earnings (loss carried forward)	(300,640)	(308,804)
IX)	Net profit (loss) for the period	49,421	8,594
B	Provisions for risks and charges:	70,570	70,570
C	Employee termination benefits	127,469	121,302
D	Payables (all falling due within 12 months)	1,682,738	1,464,617
	7 To suppliers	1,353,087	1,353,198
	12 To tax authorities	228,574	56,411
	13 Payables to pension and social security institutions	61,917	34,541
	14 Other	39,160	20,467
E	Accruals and deferrals:	11,640	6,428
<b>Total liabilities and shareholders' equity</b>		<b>2,450,410</b>	<b>2,171,489</b>

## INCOME STATEMENT

		31/12/2017	31/12/2016
A	Value of production	2,506,191	2,407,951
1	Revenues from sales and services	2,318,261	2,223,267
5a)	Other revenue and income, with separate reporting of operating grants:	2,446,766	2,166,51
A 5a	- Other	187,930	184,684
5b)	- Operating grants	-	-
B	Production costs:	2,405,770	2,375,820
6	Raw materials, ancillary products, consumables and goods	10,979	11,582
7	Services	1,474,767	1,469,218
8	Leaseholds:	39,125	61,260
9	Personnel:	1,367,205	1,317,354
a)	Wages and salaries	579,930	536,433
b)	Social security contributions	202,693	190,801
c)	Employee termination benefits	42,453	43,441
e)	Other costs	20,471	18,838
10	Depreciation, amortization and impairment losses:	119,991	79,164
b)	Depreciation :	1,334	1,334
d)	Writedowns of receivables recognized under current assets and cash and cash equivalents	7,000	7,000
14	Other operating expenses	27,558	35,913
	Difference between value and cost of production (A-B)	100,421	32,131
C	Financial income and expense:	(1,235,574)	(1,231,762)
15)	Income from equity investments, with separate reporting of that from subsidiaries and associates and that from parent companies and companies under common control:	2,450,410	2,171,489
	Profit before tax	100,421	32,131
20)	Income tax expense for the period, current, deferred and prepaid	51,000	23,537
a)	- current	11,000	2,000
c)	- deferred	(40,000)	(21,537)
<b>21)</b>	<b>Net profit (loss) for the period</b>	<b>49,421</b>	<b>8,594</b>





# REPORT OF THE BOARD OF AUDITORS



**ICCREA BANCA S.P.A.**

Registered office Rome, Via Lucrezia Romana 41/47  
Share capital €1,151,045,403.55 fully paid up

**REPORT OF THE BOARD OF AUDITORS  
ON THE FINANCIAL STATEMENTS AT DECEMBER 31, 2017**

Dear Shareholders,

During the year the Board of Auditors of Iccrea Banca S.p.A. has performed the supervisory duties provided for in the Italian Civil Code, the provisions of the bylaws and by special sector laws, taking account of the regulations issued by the supervisory authorities and in accordance with the principles of conduct for Boards of Auditors recommended by the National Council of the Accounting Profession.

In 2017, the Board held 47 meetings to perform specific activities. The Board also attended the meetings of the Shareholders' Meeting, the meetings of the Board of Directors, the Executive Committee and the Risk Committee. For meetings of the Appointments Committee and the Remuneration Committee, the Board participated with one or more of its members at most of the meetings and, in the event of the absence of all its members, examined the related minutes.

These meetings were conducted in compliance with the bylaws, legislation and regulations governing its operation and received information on the activities and transactions with the most significant economic and financial impact carried out by the Company from the Board of Directors, top management, corporate control bodies and the various units reporting on their activities and the transactions of greatest economic and financial importance carried out by the Company.

The Board of Auditors' participation in the meetings of the Risk Committee and the other Board Committees and the examination of the associated results are conducted as part of the supervision of the work of the Board, partly with a view to assessing the effectiveness of corporate governance arrangements, bearing in mind the importance assigned to these committees by existing regulations.

In addition, by receiving the information flows directed to the corporate bodies and the Board committees and the feedback from the units involved, whether control functions or organizational units, the Board of Auditors assessed the operation of the overall system of internal controls, monitored the effective implementation of the corporate governance rules contained in the associated regulations established by the Board of Directors and monitored the adequacy and regulatory compliance of remuneration policies and practices.

All of these activities enable the Board to confirm that the resolutions adopted by the Directors and the consequent actions were in accordance with the law and the bylaws and were not manifestly imprudent, risky or contrary to the resolutions adopted by the Shareholders' Meeting.

During the course of 2017, the members of the Board of Statutory Auditors also participated in the training sessions addressed to the Board of Directors, the Board of Auditors and the managers of the main Company units on the basis of a training plan adopted to improve the levels of understanding and skills required to perform the duties of members of administrative and control bodies.

In 2018, the Board of Statutory Auditors reports that it has not received any complaints pursuant to Article 2408 of the Italian Civil Code and that during the course of its oversight activity and on the basis of the findings of its enquiries, no omissions, censurable facts or significant irregularities have emerged that would require mention in this report.

The Board of Auditors also performed the function of Supervisory Body referred to in Legislative Decree 231/2001, in accordance with the decisions of the Shareholders' Meeting and in line with the instructions of the supervisory authorities. In this regard, during 2017, the Board of Directors, with a favorable opinion of the Supervisory Body, completely revised and updated the Parent Company's Compliance Model under Legislative Decree 231/2001. Following our activities, no information that would require mention in this report has emerged.

### **Appropriateness of the organizational structure**

The Board of Auditors oversees the overall organizational and administrative adequacy of the company and the Group, not only on the basis of the information provided by the directors, senior management and the second and third-level control units, but also through audits of the units engaged in the various business or administrative activities of the company. The Board of Auditor's activities are planned through programs that take account of the available information and participation in the meetings of the corporate bodies, as well as the reporting of the control functions.

The results of this activity showed that the organizational and administrative structure of the Iccrea Banking Group was substantially appropriate within its current scope of activity and in the context of the progressive alignment with the quality standards required of a significant bank within Europe's Single Supervisory Mechanism.

The Group is also engaged in a complex project that will lead to the expansion of the current Iccrea Banca structure when it takes on the functions and mission of the Parent Company of the Mutual Banking Group.

The definition of the organizational arrangements, processes and systems to support management and coordination activities in respect of some 150 mutual banks is a highly challenging effort requiring a considerable commitment of human and financial resources. This reflects in part the diversity of the banks involved in the project, not only in terms of size and geographical presence but also in terms of organizational structures, processes and the supporting information systems.

An additional complexity is represented by the objective novelty of the regulatory framework for the reform of the mutual banking system, which necessarily impacts numerous functional and organizational choices.

The various issues were analyzed by staff and assessed by the directors, leading to the identification of organizational and regulatory decisions deemed appropriate for the launch of the Mutual Banking Group, also in light of the ongoing dialogue with the supervisory authorities. In this regard, the SREP decision for 2017 also required the presentation of detailed plans to reinforce the capacity of the group's central administrative structure in view of the establishment of the new Mutual Banking Group, accompanied by appropriate assessments on how the financial requirements generated by this new operational scope would be raised.

### **Appropriateness of the internal control and risk management system**

In the course of the year, the Board of Auditors met with the heads of Internal Audit, Risk Management, Compliance and Anti-Money-Laundering, units endowed with autonomy and independence dedicated to ensuring the correct and efficient operation of the internal control system. The reporting of these functions, their activity plans, the results of the monitoring of the implementation of the interventions requested of the audited units were examined by the Board of Auditors both in specific meetings or audits and through participation in the meetings of the Board of Directors, the Executive Committee and the Risk Committee.

Risk Management participates in the development, definition and maintenance of the Risk Management Framework as well as participating in the definition of the Risk Appetite Framework and the related operational implementation in the various Group companies, namely the Risk Appetite Statements. It also monitors the evolution of the various types of risk as well as capital requirements and prudential indicators on an individual and prospective basis in relation to the objectives defined internally and the requirements of the supervisory authorities. In addition, the unit analyzes the most important operations, providing preliminary opinions on the consistency of transactions with the Risk Appetite Statement. It also evaluates the processes and results of the ICAAP and ILAAP. The Operational & IT Risk unit, a specialist function with the task of providing guidelines and technical support to the risk management units of all Group companies in the field of operational and IT risks, is also a part of the Risk Management unit.

The unit, which is systematically involved in adjusting risk monitoring and management models and methods to contextual and market complexities, provides the Board of Directors with appropriate information, contributing significantly to the activities of the Risk Committee.

The units is also significantly involved in all the activities associated with the establishment of the Mutual Banking Group.

The Compliance and Anti-Money-Laundering function is responsible for ensuring control of compliance with regulatory requirements and countering money laundering and terrorist financing. Last year, the unit ensured the containment of compliance risk, performing its duties in an especially challenging environment, given the number and significance of the activities pursued by the Group as well as the continuing process of major changes in both organizational and regulatory arrangements.

The Internal Audit unit performs third-level controls for the entire Group, operating control arrangements that assess the completeness, adequacy, functionality and reliability of the organizational structure and other components of the internal control system.

The unit's activity plans are primarily aimed at performing mandatory activities. In the discretionary area, they are performed on the basis of a risk-based approach and the practical experience acquired, as well as the need to cover all areas of activity over a multi-year horizon. The unit is also particularly engaged in monitoring, and often stimulating, the actual implementation of the interventions identified during inspections and initially agreed, including the timing, with the various units. The unit performs similar activities with regard to the intervention plans developed in response to comments and suggestions from the ECB.

It is necessary for both the 2nd-level functions and for Internal Audit - in parallel with the expansion of the scope of operations and the growth in regulatory and operational complexities - verify the adequacy of the volume and quality of their resources and any measures to strengthen them on an ongoing basis. This is especially important with regard to the coordination role to be played within the Mutual Banking Group, which these functions will soon have to perform effectively and for which it appears advisable that they add professional expertise to their staffs. In the view of the Board of Auditors, the activities carried out by the corporate control bodies also require greater coordination, both in the planning phase and in operational implementation, taking account of the strong interrelations between the various areas they cover. The regulations already in place allow them to share certain information, while respecting their different areas of responsibility.

The findings of the control units, albeit against a background of a substantively adequate overall system of internal controls and the satisfactory responsiveness of units to recommendations, underscore, especially for certain areas, a degree of overlap among remediation measures taken following external inspections and checks by the control bodies themselves with regard to projects connected with the run-up to the Mutual Banking Group and reorganization measures. The units most closely involved with these efforts are obviously the Organization department and Information System, which in 2017 had to cope with the unusual impacts of this situation. The Board of Auditors called the attention of the Board of Directors and management to this situation, including through the Risk Committee, offering those bodies its views in its semi-annual reports and the provision of the minutes of its meetings and inspections.

### **Transactions with related parties**

In compliance with the rules governing related parties, Iccrea Banca has established internal regulatory arrangements, IT instruments and policies to govern related party transactions for the companies of the Group. The periodic review of the information flows by the Committee for Related Party Transactions - whose functions are performed by the Risk Committee - did not reveal transactions that do not comply with regulatory requirements and the internal rules of the Group.

The conflict of interest issues connected with the formation of the Mutual Banking Group are being monitored constantly by the supervisory authorities. In developing the organizational, regulatory and governance solutions contained in the application to take the role of Parent Company of the Mutual Banking Group, certain mechanisms were specified to ensure that corporate assessments and decisions meet the need to safeguard the assets of the Group as a whole.

### **Inspections by the supervisory authorities, SREP, ICAAP and ILAAP**

The ECB continued its supervision of the Iccrea Banking Group in 2017. As noted by the Directors in the report on operations, from April 5 to June 28, 2017, the ECB conducted an inspection concerning the "governance and management of financial risks" at the consolidated level. The inspection assessed the adequacy of the governance and control mechanisms for liquidity and funding risk, interest rate risk in the banking book and market risk, while

also examining the accuracy and reliability of internal reporting and supervisory reporting for liquidity risk and IRRBB.

The inspection report offered a positive assessment of the organizational structure and the internal control system in relation to the exposure to financial risk, noting however areas of improvement that will be addressed as part of the work associated with the establishment of the Mutual Banking Group.

Also in 2017, the Bank of Italy:

- conducted an inspection of the subsidiary BCC Risparmio & Previdenza. The inspection report was partially favorable, within the framework of the periodic prudential control process, in the light of the increasing levels of profitability and the substantial increase in assets under management, despite the finding a need to strengthen the control of strategic risks and address certain limited weaknesses in the control system;
- conducted a thematic inspection of the subsidiary BCC Credito Consumo S.p.A. on consumer protection issues. The inspection report was broadly positive about the organizational and control arrangements in place, recommending the development of organizational and process measures to complete and strengthen the procedure for introducing new services and products and the monitoring of commercial distribution activities.

Recall that in 2016 the Group underwent inspections of its credit process and was involved in the activities of the ECB task force on the management of NPLs. The activities of the ECB in this regard were aimed at assessing the capacity to manage the impaired loans of the Iccrea Group.

The results of the inspections were announced at the end of the first quarter of 2017 and were examined by the Directors. Various initiatives and their associated timetable were identified to achieve the required improvements. The assessments conducted by the Board of Auditors found that most of the issues uncovered during the on-site inspection of the lending process, as well as the measures requested following the work of the NPL task force had been completed at the end of 2017, while the remaining will be finished in the first half of 2018.

In general, the Board of Auditors supervises the implementation of the requested measures and the periodic updating of the ECB on the actions and decisions taken.

In the performance of its supervisory activities, in November 2017 the ECB announced the results of the SREP, sending Iccrea Banca S.p.A. its final decision establishing the prudential requirements for 2018 (broken down into requirements for own funds and qualitative requirements).

In this decision, the ECB requires Iccrea Banca to maintain, on a consolidated basis, a total SREP capital ratio (TSCR) of 9.75%, including the requirement for own funds under the CRR (8%). In addition, it specified that Iccrea Banca is also subject to the overall capital requirement, which, in addition to the TSCR, includes the combined capital buffer requirement.

In qualitative terms, the SREP decision also required Iccrea Banca to continue providing additional information on a quarterly basis concerning its non-performing exposures (NPEs) and to present a strategic plan to deal with NPEs and the related semi-annual monitoring. This strategic plan has already been discussed and defined by the Board of Directors, maintaining an ongoing dialogue with the ECB's Joint Supervisory Team.

The results of the self-assessments of capital adequacy (ICAAP) and liquidity adequacy (ILAAP) for 2017 at the consolidated level, which cover a three-year period coinciding with that of the strategic plan and consistent with that plan, were positive, as discussed in the report on operations.

The ICAAP found that capital was generally adequate and appropriate to deal with the various risks considered, with capital exceeding the minimum regulatory requirements established by the supervisory authorities following the SREP in both scenarios adopted for the assessment, as were the internal requirements determined for management purposes.

As a result of the ILAAP, the Iccrea Banking Group has assessed its liquidity profile "adequate" at both the short and medium/long term under normal operating conditions and in the adverse scenario.

For both processes, the ECB, both at the time of the SREP assessment and following the inspection involving financial risks and IT risks, made comments that will be implemented in the definition of the 2018 ICAAP and ILAAP, for which approval by the Board of Directors is forthcoming.

### **Application for the formation of the Mutual Banking Group organized by Iccrea Banca as Parent Company**

As discussed by the Directors in the Report on Operations, at the end of December 2017, a major effort was begun with the supervisory authorities to present the activities performed and the implementation status of the project, with a view to presenting and agreeing the draft documentation - cohesion contracts, guarantee agreement and parent company intervention arrangements, Group governance, bylaws, rules, etc. – that will be formally submitted in accordance with the deadlines established by applicable legislation.

At the time of the preparation of this Report, the submission of the application by Iccrea Banca was imminent. The deadlines provided for in the special rules governing the establishment of the Mutual Banking Group will take effect as from the date of that event.

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### **Oversight of the financial reporting process**

For the purposes of overseeing the financial reporting process, the Board of Auditors, in addition to the investigations conducted with the audit firm - which did not report critical issues in the internal control system associated with the financial reporting process – held specific meetings with the Administration department. During these meetings, there were no significant shortcomings emerged with regard to the operational and control processes that could affect the adequacy and effective implementation of the administrative and accounting procedures for the purpose of providing a true and fair representation of the performance and financial position in accordance with international accounting standards.

The Board of Auditors acknowledges the impairment procedure approved by the Board of Directors in compliance with international accounting standards. The associated results, which were agreed with the audit firm, are correctly reported in the financial statements.

During 2017, the Board followed the progress of the project to implement IFRS 9, whose application is highly complex, due in part to the expansion of the scope of the Mutual Banking Group.

The explanatory notes provide ample information on the methodological choices adopted, the implementation measures taken and the impact simulations of the new international accounting standard, as well as on the exercise of the option to adopt the transitional “phase-in” regime. The European Central Bank conducted a thematic review of the Group, like other European groups, to assess progress in the adoption of this new international accounting standard. The methodological choices are also the focus of a structured analysis by the audit firm, which is conducting an overall assessment of the related implementation.

The quantitative impacts of the application IFRS9 are estimated in connection to the consolidated CET1 and indicated in the notes to the financial statements.

On the basis of the information received and the results of the analysis conducted, the Board of Auditors deems the overall administrative and accounting system to be adequate, in the current context, to the provisions of the applicable regulations. Efforts are being made to enhance the expertise and expand the number of personnel of the function, as well as the necessary IT support, to meet the needs imposed by upcoming establishment of the Mutual Banking Group.



### **Oversight of statutory audit activities, the independence of the auditor and other engagements awarded to the audit firm**

The Board of Auditors met with the Audit Firm, EY SpA, for the mutual exchange of information. The Audit Firm has been engaged to perform the statutory audit of the separate financial statements of Iccrea Banca SpA, the consolidated financial statements of the Banking Group and the subsidiaries' financial statements, and to verify the regular keeping of the company accounts and the accurate registration of operational events in the accounting records.

At those meetings, the Board of Auditors was able to monitor audit activities, analyze the methodological approach adopted and the audit approach to the various areas of the financial statements, and obtain updates on the state of progress of the audit plan and on the main issues receiving attention.

During those meetings, the Board of Auditors was not informed of any censurable acts or facts or irregularities worthy of mention in this report.

The Board of Auditors verified and monitored during the year the independence of the audit firm, especially as regards the adequacy of the provision of non-audit services to the audited entity. The Board of Auditors also took note of the annual certification of independence contained in the additional report pursuant to Article 6, paragraph 2(a) of Regulation (EU) no. 537/2014 of the audit firm, which affirms that that no circumstances arose that could compromise its independence.

The 2017 transparency report is published on the website of EY SpA.

As reported by the Directors in the notes to the consolidated financial statements, the fees due to the audit firm EY SpA for the entire Group for 2017 break down as follows:

- for audit services: €868.8 thousand
- for other audit-related services: €212.2 thousand.

For services rendered by other companies belonging to the same network - which involved large projects largely connected with the setting up of the Mutual Banking Group - the audit firm reported to the Board of Auditors on their analysis and verification of its continued compliance with the independence requirement.

### **Supplementation of the fees of the audit firm**

With regard to the fees for 2017 and 2018, in application of the contractual clause for the revision of those fees in relation to significant changes in/expansions of the company's business, EY SpA has requested additional fees for the statutory audit of the accounts of Iccrea Banca SpA for 2017 and 2018 for the following reasons:

- regulatory changes (non-financial statement, audit report and additional report pursuant to Articles 10 and 11 of Regulation 537/2014, assessment of conformity of the report on operations pursuant to Article 14 of Legislative Decree 39/2010), for a total of €38,000;
- introduction of new international accounting standards IFRS 9 and 15 (audit readiness and FTA audit), for a total of €56,000.

On the basis of the information acquired and the technical motivations underpinning the proposal formulated by EY, the Board of Auditors felt that the new fee structure can be considered appropriate and included in the application of the contractual clause to revise the fees in relation to significant changes/expansions of company business.

### **Non-Financial Statement**

The Board of Statutory Auditors monitored compliance with the provisions of Legislative Decree 254/2016 relating to non-financial communications. Such communications are contained in the Non-Financial Statement, approved by the Board of Directors at its meeting of April 6, 2018.

In its Report issued on April 24, 2018, the audit firm states that it had received no information that would suggest that the Non-Financial Statement for the financial year ended December 31, 2017 was not drafted, in all significant aspects, in accordance with the applicable legislation.

On the basis of the information acquired, the Board of Auditors certifies that it has found no evidence of non-compliance or violations of regulations relating to non-financial communications.

### **Financial statements and report on operations**

The Board of Auditors reviewed the draft financial statements for the year ended December 31, 2017, together with the report on operations. The draft financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements and associated comparative information.

As the Board of Auditors is not charged with conducting a detailed analysis of the substance of the financial statements, the Board examined the general approach adopted in this document, ensuring its general compliance with the law in terms of its formation and structure.

The Board of Auditors reviewed the reports of the Audit Firm on the separate financial statements and the consolidated financial statements as at December 31, 2017, issued on April 24, 2018, which contained an unqualified audit opinion. In particular, the financial statements and consolidated financial statements at December 31, 2017 of Iccrea Banca SpA were judged by the audit firm as compliant with the International Financial Reporting Standards adopted by the European Union, as well as with the measures issued in implementation of Art. 9 of Legislative Decree 38 of February 28, 2005 and Art. 43 of Legislative Decree 136 of August 18, 2015, and as providing a true and fair representation of the financial position, performance and cash flows of Iccrea Banca SpA and the Iccrea Banking Group for the year ended December 31, 2017. The audit firm also found the respective reports on operations to be consistent with the separate and consolidated financial statements and prepared in compliance with applicable law.

The reports of the audit firms discuss the key matters of the audit that, in the professional judgment of the auditor, were most significant in the context of the audit performed for the individual and consolidated financial statements and how the matters were addressed in the audit.

We also note that the audit firm has submitted to the Board the additional report referred to in Article 11 of Regulation (EU) no. 537/2014 of April 16, 2014, in which:

- a. it certified its annual confirmation of independence pursuant to Article 6, paragraph 2(a), of Regulation no. 537/2014;
- b. it did not report any significant deficiencies in the internal control system for the financial reporting process and/or in the accounting system;
- c. it did not identify any significant issues involving instances of actual or presumed non-compliance with laws, regulations or the bylaws;
- d. it did not report any significant difficulties encountered during the audit or significant issues to be reported to the control body.

In view of all of the foregoing and considering the findings of the activities performed by the Audit Firm engaged to perform the statutory audit and control the accounts, the Board of Auditors recommends approving the financial statements for 2017 and the proposal for the allocation of profit submitted by the Board of Directors to the Shareholders' Meeting.

Rome, April 24, 2018  
THE BOARD OF AUDITORS



# REPORT OF THE AUDIT FIRM





## Iccrea Banca S.p.A.

Financial statements as at December 31, 2017

Independent auditor's report pursuant to article 14 of  
Legislative Decree n. 39, dated January 27, 2010, and article  
10 of EU Regulation n. 537/2014



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## Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014 *(Translation from the original Italian text)*

To the Shareholders of  
Iccrea Banca S.p.A.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Iccrea Banca S.p.A. (the "Bank" or the "Company"), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 2015.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Classification and measurement of loans to customers</p> <p>Loans to customers amounted to Euro 5,985 million at December 31, 2017.</p> <p>The process of classifying loans to customers in the various risk and measurement categories is relevant to the audit in view of the significance of the value of loans as a proportion of assets and in consideration of the fact that the recoverable value of loans is determined by management using estimates that are highly subjective, with particular reference to: i) the identification of evidence of impairment of a loan; ii) the realizable value of the collateral pledged as security; iii) the determination of the expected cash flows and the timing of those flows; iv) the definition of the uniform credit-risk categories of loans; and v) the determination of Probability of Default (PD) and the associated Loss Given Default (LGD) estimate on the basis of observed historical data for each risk class.</p> <p>The financial statement disclosures on the classification and measurement of loans to customers are provided by management in Part A and Part E of the notes to the financial statements.</p>	<p>In addressing these issues, our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>▪ gaining an understanding of Group policies, processes and controls for classifying and measuring loans to customers and performing testing procedures over controls considered key, including those associated with the information technology environment;</li> <li>▪ performing testing procedures to assess for a sample of positions the appropriate classification of loans and the measurement of credit positions measured individually, as well as the correct use of the collective measurement model for the performing portfolio;</li> <li>▪ performing comparative analysis procedures for the customer loan portfolio and the associated coverage levels for each risk category by comparison with previous years' data and an analysis of the most significant differences.</li> </ul> <p>Finally, we examined the adequacy of the disclosures provided in the notes to the financial statements.</p>





Key audit matter	Audit response
<p><b>Measurement of equity investments</b></p> <p>Equity investments recognized under caption 100 of the balance sheet amounted to Euro 1,194 million at December 31, 2017.</p> <p>At least on an annual basis the company's management assesses whether there is evidence of impairment on equity investments, consistent with the company's strategy for managing legal entities and, if such evidence arises, assesses the recoverable value of those assets (impairment testing) in accordance with IAS 36 "Impairment of Assets". In particular, during the year, impairment losses of Euro 3,082 thousand were recognized in respect of the subsidiaries Ventis S.r.l. and Banca per lo Sviluppo della Cooperazione di Credito S.p.A. as well as the associate M-Facility S.p.A.</p> <p>The process and procedures for determining the recoverable value of equity investments are based on assumptions that by their very nature involve the use of management's judgment, especially with regard to the identification of evidence of impairment and the determination of the long-term growth rates and the discount rates applied against the forecasted future cash flows.</p> <p>In view of the judgment required of management and the complexity of the assumptions used in estimating the recoverable value of the equity investments, we considered this is a key audit matter.</p> <p>The financial statement disclosures on the impairment testing of equity investments are provided by management in Part A and Part B of the notes to the financial statements.</p>	<p>In addressing these issues, our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>▪ analyzing the procedure and key controls established by the company concerning the identification of any impairment of equity investments;</li> <li>▪ analyzing the impairment test procedure approved by the Board of Directors on April 6, 2018;</li> <li>▪ analyzing the report of the external valuator who assisted the company in determining the recoverable value of the individual equity investments as part of the impairment testing;</li> <li>▪ discussing the information that emerged from management's comparison of the results achieved in 2017 and the forecasts prepared by the subsidiaries;</li> <li>▪ verifying the assumptions underlying the determination of expected cash flows, long-term growth rates and discount rates;</li> <li>▪ verifying the mathematical accuracy of the calculations in the impairment testing performed by the company.</li> </ul> <p>During our audit, we also obtained support from business valuation experts in the EY network, which performed an independent recalculation and conducted a sensitivity analyses on the key assumptions in order to determine the changes in those assumptions that could significantly impact the determination of recoverable value.</p> <p>Finally, we examined the accuracy of the disclosures provided in the notes to the financial statements.</p>



## Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's



ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

#### Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Iccrea Banca S.p.A., in the general meeting held on April 22, 2010, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.



## Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations and of the specific information included in the Report on Corporate Governance and Ownership Structure, as provided for by article 123-bis, paragraph 2, subparagraph b), of Legislative Decree n. 58, dated February 24, 1998, of Iccrea Banca S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 2, subparagraph b), of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Iccrea Banca S.p.A. as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Iccrea Banca S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, April 24, 2018

EY S.p.A.  
Signed by: Wassim Abou Said, partner

*This report has been translated into the English language solely for the convenience of international readers.*



# **CONSOLIDATED REPORT ON OPERATIONS**

January 1, - December 31, 2017



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## 1. DEVELOPMENTS IN GROUP OPERATIONS

### The balance sheet

To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities compared with those provided for in Circular no. 262/05 of the Bank of Italy.

### Consolidated assets

€/thousands	31/12/2017	31/12/2016	Change
Cash and cash equivalents	110,641	113,310	(2,670)
Due from banks	17,875,759	21,152,194	(3,276,435)
Loans to customers	14,856,879	13,674,256	1,182,624
Financial assets:			-
- held for trading	297,143	391,281	(94,138)
- at fair value	15,630	14,559	1,072
- available for sale	3,118,484	5,247,279	(2,128,795)
- held to maturity	-	4,738,609	(4,738,609)
- hedging derivatives	6,716	17,773	(11,057)
- value adj. of hedged assets	5	(348)	353
Equity investments	111,676	102,285	9,392
Property and equipment	734,014	701,380	32,634
Intangible assets	49,409	38,870	10,539
Tax assets	318,284	343,170	(24,886)
Other assets	412,560	320,181	92,380
Non-current assets and disposal groups held for sale	220,286	-	220,286
<b>Total assets</b>	<b>38,127,486</b>	<b>46,854,799</b>	<b>(8,727,313)</b>

Consolidated assets at December 31, 2017 totaled €38.1 billion, a substantial decrease (€8.7 billion, or -18.6%) from December 31, 2016. The change with respect to the previous year is mainly attributable to:

- the disposal of the entire portfolio of HTM financial assets (-€4.7 billion), represented entirely by government securities;
- a reduction in the portfolio of AFS financial assets (-€2.1 billion, or -40%), due mainly to the disposal of government securities, in line with the strategy of reducing exposure to sovereign risk;
- a reduction in amounts due from banks (-€3.3 billion, of -15%) as a result of a decline in collateralized lending to the mutual banks in respect of pool collateral transactions, partly offset by an increase in the reserve requirement held with the central bank;
- an increase in loans to customers (€1.2 billion, or +8.6%), mainly reflecting an increase in the exposure to the Clearing and Guarantee Fund, partly offset by the disposal of branches and the reclassification to assets held for sale of part of the loans of Banca Sviluppo.

A substantial portion of amounts due from banks is represented by financing granted to the mutual banks under the pool collateral mechanism, equal to €15.4 billion (of which €9 billion in respect of financing provided through TLTRO-II) in exchange for collateral securities with a total fair value, net of the haircut, of €18.1 billion.

At the end of December 2017, net impaired loans to customers amounted to €1.35 billion (€1.42 billion at December 31, 2016), equal to 9% of total lending (10.4% at the end of December 2016). The ratio of net bad debts to loans was 3.9% (3.7% at December 31, 2016), while the ratio of net positions unlikely to be repaid to loans was 4.8% (6.2% at December 31, 2016). Gross impaired assets amounted to €2.54 billion, virtually unchanged on the previous year (€2.57 billion). The ratio of gross impaired assets to loans was 15.5% (17.2% at

December 31, 2016). The calculation of these ratios included the loans of Banca Sviluppo, which is classified as held for sale. The decline in the risk indicators is attributable to the increase in loans to customers as a result of a rise in collateralized lending with the Clearing and Guarantee Fund.

The coverage ratio for impaired assets was 47%, an improvement on December 2016 (44.7%). More specifically the coverage ratio was 58.3% for bad debts – a decline of 1.6 percentage points on the end of the previous year (59.9%) – and 34.3% for unlikely-to-pay positions, an increase on the previous year (31.5%). The reduction in the coverage ratio for bad debts is attributable to the acquisition, through the Lucrezia vehicle, of bad debts that were recognized in the consolidated accounts at their transaction value rather than their nominal value, in accordance with the applicable accounting standards. Excluding that transaction, in which Iccrea Banca has undertaken to subscribe all of the notes issued by the vehicle, the Group's coverage ratio for bad debts at December 31, 2017 was 62%, an increase of about 2 points on the previous year.

Following the disposal of government securities noted earlier, the portfolio of financial assets available for sale (AFS) is mainly composed of non-controlling equity investments.

The portfolio of financial assets held for trading mainly includes derivatives hedging interest rate risk and indexes with a positive fair value, entered into for trading purposes.

Equity investments not classified as AFS comprise interests in associated companies and amounted to €111.7 million (€102.3 million at December 31, 2016), with the increase mainly reflecting the pro-rata share of the net income of associated companies and the inclusion of the associate Satispay in the scope of consolidation.

Property and equipment primarily includes properties owned used by the Company and the buildings transferred to the real estate funds, which, in accordance with international accounting standards, are consolidated in the financial statements (Securfondo and the Securis Real Estate real estate funds). The increase compared with 2016 (€32.6 million) reflects both the transfers of properties to the real estate funds during the year and expansion work on the management offices in Via Lucrezia Romana in Rome.

Intangible assets include €21.7 million in goodwill paid for the purchase of a number of controlling interests (mainly BCC Risparmio & Previdenza, Banca Sviluppo and BCC Sistemi Informatici), a decrease of €0.9 million on December 31, 2016 attributable to the partial writedown of the goodwill in respect of Banca Sviluppo. Other intangible assets amounted to €27 million and mainly regard software, which increased compared with 2016 for a number of reasons, including the costs incurred in connection with the formation of the Mutual Banking Group.

Tax assets include current and deferred tax assets and amounted to €318.3 million (of which €172 million in deferred tax assets under Law 214/2011), a decrease of €25 million on December 31, 2016, the net effect of the estimated tax liability for the period, deferred tax assets and deferred tax liabilities.

Other assets amounted to €412.5 million, an increase of €92 million on December 31, 2016 (€320 million), mainly reflecting a number of temporary items settled in the first few days of the month following the close of the year.

Non-current assets held for sale amounted to €220.3 million (none at December 31, 2016) and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

## Consolidated liabilities

€/thousands	31/12/2017	31/12/2016	Change
Due to banks	19,235,105	12,722,738	6,512,367
Due to customers	10,068,860	26,829,330	(16,760,470)
Financial liabilities:			
- securities issued	5,688,867	4,466,854	1,222,013
- held for trading	356,450	409,617	(53,167)
- measured at fair value	492	21,389	(20,897)
- hedging derivatives	56,416	63,318	(6,902)
Tax liabilities	5,331	3,946	1,385
Liabilities associated with assets held for sale	282,047		282,047
Provisions for risks and termination benefits	89,344	106,288	(16,943)
Other liabilities	668,291	575,550	92,741
Shareholders' equity	1,676,281	1,655,769	20,512
<b>Total liabilities and equity</b>	<b>38,127,486</b>	<b>46,854,799</b>	<b>(8,727,313)</b>

Amounts due to banks (excluding bonds) amounted to €19.2 billion, up 51% on December 31, 2016 (€12.7 billion), mainly reflecting the increase in funding with the ECB under the T-LTRO II program.

Amounts due to customers amounted to €10.1 billion, down 62% on the previous year, the effect of the reduction in repurchase transactions with the Clearing and Guarantee Fund.

Securities issued amounted to €5.7 billion, up €1.2 billion on December 31, 2016 (€4.5 billion) due to new issues in the period.

Financial liabilities measured at fair value through profit or loss (fair value option), represented by structured bonds issued by Iccrea Banca, decreased as a result of redemptions during the year.

Liabilities associated with assets held for sale totaled €282 million (none at December 31, 2016) and regard the branches of Banca Sviluppo slated for disposal, the sale of which is considered highly likely.

## Consolidated shareholders' equity

The composition of consolidated shareholders' equity is as follows.

€/thousands	31/12/2017	31/12/2016	Change
Share capital	1,151,045	1,151,045	-
Share premium reserve	4,747	4,747	-
Valuation reserves	73,569	73,848	(279)
Reserves	352,141	389,976	(37,835)
Profit (loss) for the period (+/-)	29,357	(24,067)	53,424
<b>Total shareholders' equity</b>	<b>1,676,282</b>	<b>1,655,769</b>	<b>20,513</b>
Equity pertaining to shareholders of the Parent Company	1,610,859	1,595,549	15,310
Equity pertaining to non-controlling interests (+/-)	65,423	60,220	5,203

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.7 billion, essentially unchanged on December 31, 2016. The increase of €20 million mainly reflected the combined effect of:

- the distribution of dividends in 2017;
- net profit for the year.

## The income statement

To enable a more immediate understanding of the Group's performance, the following tables contain a more condensed income statement compared with the schedule provided for in Circular no. 262/05 of the Bank of Italy.

€/thousands	31/12/2017	31/12/2016	Change
Net interest income	319,824	344,639	(24,815)
Net fees and commissions	217,735	192,802	24,933
Net gain (loss) on trading activities	15,093	10,930	4,163
Net gain (loss) on disposals	104,353	71,742	32,611
Result of FVO, dividends and hedging	2,032	5,060	(3,028)
<b>Gross income</b>	<b>659,037</b>	<b>625,174</b>	<b>33,864</b>
Net impairment adjustments	(177,660)	(158,972)	(18,688)
<b>Net income (loss) from financial operations</b>	<b>481,376</b>	<b>466,201</b>	<b>15,175</b>
- personnel expenses	(189,310)	(215,845)	26,535
- other administrative expenses	(298,747)	(319,852)	21,105
Depreciation, amortization and provisions	(27,263)	(37,204)	9,941
Other expenses/income	94,405	95,711	(1,306)
<b>Operating expenses</b>	<b>(420,917)</b>	<b>(477,190)</b>	<b>56,273</b>
<b>Operating result</b>	<b>60,460</b>	<b>(10,989)</b>	<b>71,449</b>
Fair value measurement of property and equipment	(22,171)	(34,784)	12,613
Writedowns of goodwill	(907)	-	(907)
Profit (loss) from equity investments	4,252	4,445	(193)
Profit (loss) from disposal of investments	4,995	(19)	5,014
<b>Profit (loss) before tax on continuing operations</b>	<b>46,629</b>	<b>(41,347)</b>	<b>87,976</b>
Income taxes	(11,125)	19,654	(30,779)
Net profit pertaining to non-controlling interests	(6,147)	(2,374)	(3,773)
<b>Net profit pertaining to the Iccrea Group</b>	<b>29,357</b>	<b>(24,067)</b>	<b>53,424</b>

The Group closed the year with a net profit of €29.4 million despite incurrent significant charges for non-recurring events that had an adverse impact on performance.

More specifically, **gross income** reflected the following developments:

- net interest income amounted to €319.8 million, down €24.8 million (-7.2%) on the previous year (€344.6 million), mainly reflecting the smaller contribution of government securities following the disposal of those holdings and the overall developments in interest rates, partly offset by interest income on T-LTRO II operations of about €19 million;
- net fee and commission income amounted to €217.7 million, up €24.9 million (+12.9%) on the previous year (€192.8 million) thanks to increased income from Iccrea Banca's e-money operations (+€7 million) and an increase in commissions realized by BCC Risparmio & Previdenza on asset management operations (+16 million on an annual basis);
- the net gain on trading activities amounted to €15.1 million, an increase compared with the previous year (€10.9 million), which reflected charges to hedge Brexit risk;
- gains from disposals amounted to €104.4 million, a substantial increase on 2016 (€71.7 million), reflecting:
  - gains on the disposal of HTM financial assets of €73.5 million, compared with none in 2016;
  - gains on the disposal of AFS securities of €31.6 million (€83.4 million in 2016, mainly attributable to the VISA disposal);
  - losses on the repurchase of previously issued securities of €0.9 million (€3.7 million in 2016);
- the result of exercising the fair value option (FVO), a positive €1.3 million, mainly reflects the accounting effect on the structured liabilities of Iccrea Banca of developments in credit spreads and was essentially unchanged on 2016.

As regards **operating expenses**, the following developments occurred in the year:

- personnel expenses amounted to €189 million, a decrease of about €26.8 million compared with the previous year, mainly reflecting the absence of costs for termination incentives, which were provisioned in 2016;
- other administrative expenses amounted to €298.7 million, down 21.1 million compared with the previous year. The decline mainly reflected the reduction of about €23 million in Resolution Fund contributions in 2017 (€69.4 million in 2016, including an extraordinary contribution of about €46 million connected with the resolution of four Italian banks), offset by charges incurred to adjust processes and procedures to a number of major regulatory changes (in particular, IFRS 9 and Mifid2) and project costs for the formation of the Mutual Banking Group totaling €20 million.

**Net impairment adjustments** (€177.7 million, up 11.8% on 2016) included €146.3 million in loan writedowns. **Impairment of collective investment undertakings**, which came to €22.2 million (€34.8 million in 2016) reflected the writedown of fund assets. Also impacting the aggregate was the impairment loss on Fondo Atlante of €22.1 million. Overall, between 2016 and 2017, the investment in the Fondo Atlante has incurred writedowns of €31.8 million, attributable to the Fund's writedown of its interests in Popolare di Vicenza and Veneto Banca.

Between contributions to the Resolution Fund and writedowns of Fondo Atlante, the Iccrea Group has recognized total charges of about €192 million in the last three years.

## Consolidated own funds and capital ratios at December 31, 2017

The following table offers a breakdown of **own funds** at December 31, 2017, which amounted to €1.7 billion.

Capital and capital ratios - €/thousands	31/12/2017	31/12/2016	Change
- Share capital	1,151,045	1,151,045	-
- Share premium reserve	4,747	4,747	-
- Treasury shares	(30,847)	(30,590)	(257)
- Earnings reserves	380,380	393,601	(13,221)
- Net profit for the period	-	(12,786)	12,786
- Other comprehensive income	73,745	74,027	(282)
- Transitional provisions	(86)	4,106	(4,192)
- Goodwill	(16,415)	(17,346)	931
- Deductions – deferred tax assets	(19,368)	(33,229)	13,861
- Intangible assets	(12,594)	(7,107)	(5,487)
- Prudential filters	(2,475)	(3,058)	583
- Non-controlling interests	26,930	31,928	(4,998)
<b>Common Equity Tier 1 (CET1 ratio)</b>	<b>1,555,062</b>	<b>1,555,338</b>	<b>(276)</b>
Additional Tier 1 (AT1)	5,661	5,837	(176)
<b>Tier 1 (T1)</b>	<b>1,560,723</b>	<b>1,561,175</b>	<b>(452)</b>
- Eligible subordinated loans and eligible AFS reserves	137,610	141,599	(3,989)
<b>Tier 2 (T2)</b>	<b>137,610</b>	<b>141,599</b>	<b>(3,989)</b>
<b>Total own funds (TC)</b>	<b>1,698,333</b>	<b>1,702,774</b>	<b>(4,441)</b>

More specifically, **Common Equity Tier 1** (“CET1”) at December 31, 2017 amounted to €1,555 million, in line with December 2016. A reduction of €13.8 million in deductions for deferred tax assets (on tax losses) due to the transformation carried out during the year was essentially offset by: (i) an increase in deductions from the recognition of new intangible assets in the amount of €5.5 million; (ii) a reduction in positive filters provided for under the transitional provisions on the computation of valuation reserves on AFS assets and deferred tax assets for tax losses of €4 million; (iii) a reduction in eligible non-controlling interests of about €5 million (mainly regarding Banca Sviluppo), reflecting use at the consolidated level.

**Tier 1** capital (T1) at December 31, 2017 includes part of the share capital of Banca Sviluppo subscribed by the mutual banks (minority interests) under the regulatory requirements referred to in Article 86 of the CRR. Total **own funds** (TC) amounted to €1,698 million (€1,702 million at December 31, 2016), a decrease of just €4 million attributable to the reduction in CET 1 mentioned above and the amortization of a T2 instrument issued by the subsidiary Iccrea Bancalmpresa, which matured in the first quarter of 2017.

**Risk-weighted assets** (RWA) at December 31, 2017, which break down as shown in the following table, amounted to €12.8 billion, down €88 million on December 31, 2016, reflecting reduction in the exposure to credit risk, securitizations and the CVA, partly offset by the increase in the exposure to operational risk.

(RWA) - €/thousands	31/12/2017	31/12/2016	Change
Credit risk, securitizations and CVA	11,433,811	11,537,095	(103,284)
Market risk	243,391	254,550	(11,159)
Operational risk	1,157,212	1,131,550	25,662
<b>Total RWA</b>	<b>12,834,414</b>	<b>12,923,195</b>	<b>(88,781)</b>

At December 31, 2017, the **Common Equity Tier 1 Ratio** (“CET 1”) amounted to 12.12% (12.04% at December 31, 2016), greater than the 9.50% required under the SREP for 2017. The **Total Capital Ratio** (TCR) was 13.23% (13.18% at December 31, 2016), greater than the 10.75% - including the capital conservation buffer (CCB) applicable at the consolidated level as from January 1, 2017 – required under the SREP for the current year.

Capital ratios	31/12/2017	31/12/2016	change
CET 1 ratio	12.12%	12.04%	0.08%
Total Capital ratio	13.23%	13.18%	0.05%

For the purpose of calculating own funds, in the absence of authorization from the ECB pursuant to Decision (EU) 656/2015, profit for the year net of the foreseeable dividend has not been considered: including that component, amounting to an estimated €19.4 million, would give a CET1 ratio of 12.25% and a TCR of 13.37%.

## 2. OTHER INFORMATION

This consolidated report on operations of the Iccrea Banking Group only includes comments on developments in Group operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to the consolidated financial statements or to the separate financial statements and the related report on operations.

In particular, please see to the notes to these consolidated financial statements with regard to:

- information on the Group's transactions with related parties, which are reported in Part H;
- information on financial and operational risks, which are discussed in Part E;
- the list of subsidiaries at December 31, 2017, which is reported in Part A;
- information on capital, which is reported in Part F.

Readers should instead consult the report on operations in the separate financial statements with regard to:

- information on the main risks and uncertainties;
- events subsequent to the balance sheet date and the outlook for operations;
- the main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation.

### 2017 consolidated non-financial statement

Pursuant to Legislative Decree 254/2016, a non-financial statement has been prepared on a consolidated basis for the 2017 financial year - attached to this document - to which readers should refer for all the specific information required by the applicable legislation.

The Parent Company is the only bank that, within the scope of consolidation, had more than 500 employees (average on an annual basis) in 2017. In exercising the option permitted by the relevant legislation, the Parent Company has decided to draw up the non-financial statement on a consolidated basis only, while in 2017 the other Group banks did not exceed the aforementioned size requirement.

In short, based on the indications in the guidelines of the Global Reporting Initiative and as set out in section 4.4 of Circular no. 13 of June 12, 2017 issued by Assonime (hereinafter also the "Assonime Circular ") concerning the disclosure obligations for non-financial information, the Group conducted a materiality analysis to identify the relevant information in relation to its business, strategies, the expectations of stakeholders and the context in which it operates.

The first phase of the materiality analysis process involved carrying out benchmarking of the financial sector and conducting specific studies and developing guidelines in the area of sustainability, which led to the identification of approximately 70 material issues for the sector. Subsequently, these issues underwent assessment by the management of Iccrea Banca in order to determine their relevance for the Iccrea Group.

This assessment led to the identification of 15 material issues for the Group, which are reported in the attached "2017 Consolidated Non-Financial Statement".

Starting from the results of this analysis, the Group has identified the policies implemented to date to manage the material issues that emerged. In particular, during the course of its business activities, the Group has defined precise processes and operating practices, which provide guidance for governance and specify the responsibilities for the material issues.

Furthermore, with reference to the human rights issues, referred to in Article 3 of the Decree, based on section 4.4 of the Assonime Circular, the absence of policies is attributable to the materiality analysis conducted by the Parent Company, which did not identify those issues as material.



## ATTACHMENT: RECONCILIATION OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND GROUP PROFIT AND EQUITY

	SHARE CAPITAL	RESERVES	VALUATION RESERVES	PROFIT FOR THE PERIOD	SHAREHOLDERS' EQUITY Dec. 31. 2017
<b>Iccrea Banca S.p.A. financial statements</b>	<b>1,151,045</b>	<b>375,094</b>	<b>66,834</b>	<b>4,751</b>	<b>1,597,724</b>
Results of consolidated companies	-	(73,342)	(444)	46,798	(26,987)
Elimination of dividends received from Group companies	-	30,006	-	(30,006)	-
Results of companies accounted for with equity method	-	(28,785)	7,754	4,243	(16,788)
Increase in property values	-	21,784	-	-	21,784
Amortization of increase in property values	-	(8,099)	-	(651)	(8,750)
Goodwill	-	22,582	-	(907)	21,675
Adjustment of intercompany writedowns/(writebacks)	-	22,329	(569)	5,523	27,283
Reversal of internal hedges	-	(5,439)	-	661	(4,778)
Other consolidation adjustments	-	758	(6)	(1,056)	(304)
Pertaining to non-controlling interests	52,078	7,190	8	6,146	65,421
<b>Consolidated shareholders' equity</b>	<b>1,203,123</b>	<b>364,077</b>	<b>73,577</b>	<b>35,503</b>	<b>1,676,280</b>
<b>Non-controlling interests</b>	<b>52,078</b>	<b>7,190</b>	<b>8</b>	<b>6,146</b>	<b>65,421</b>
<b>Shareholders' equity of the Iccrea Group</b>	<b>1,151,045</b>	<b>356,888</b>	<b>73,569</b>	<b>29,357</b>	<b>1,610,859</b>



# GROUP FINANCIAL STATEMENTS

## 2017



## CONSOLIDATED BALANCE SHEET

ASSETS	31/12/2017	31/12/2016
10. Cash and cash equivalents	110,641	113,310
20. Financial assets held for trading	297,143	391,281
30. Financial assets at fair value through profit or loss	15,630	14,559
40. Financial assets available for sale	3,118,484	5,247,279
50. Financial assets held to maturity	-	4,738,609
60. Due from banks	17,875,759	21,152,194
70. Loans to customers	14,856,879	13,674,256
80. Hedging derivatives	6,716	17,773
90. Value adjustments of financial assets hedged generically (+/-)	5	(348)
100. Equity investments	111,676	102,285
120. Property and equipment	734,014	701,380
130. Intangible assets	49,409	38,870
of which:	-	-
- goodwill	21,686	22,593
140. Tax assets	318,284	343,170
a) current	106,174	109,697
b) deferred	212,111	233,474
of which Law 214/2011	172,066	181,105
150. Non-current assets and disposal groups held for sale	220,286	-
160. Other assets	412,560	320,181
<b>TOTAL ASSETS</b>	<b>38,127,486</b>	<b>46,854,799</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2017	31/12/2016
10. Due to banks	19,235,105	12,722,738
20. Due to customers	10,068,860	26,829,330
30. Securities issued	5,688,867	4,466,854
40. Financial liabilities held for trading	356,450	409,617
50. Financial liabilities at fair value through profit or loss	492	21,389
60. Hedging derivatives	56,416	63,318
80. Tax liabilities	5,331	3,946
Tax liabilities – current	1,334	175
Tax liabilities – deferred	3,997	3,771
90. Liabilities associated with assets held for sale	282,047	-
100. Other liabilities	668,291	575,550
110. Employee termination benefits	25,881	29,612
120. Provisions for risks and charges:	63,464	76,676
Provisions for risks and charges - post-employment benefits	-	1,907
Provisions for risks and charges – other	63,464	74,769
140. Valuation reserves	73,569	73,848
170. Reserves	382,988	420,566
180. Share premium reserves	4,747	4,747
190. Share capital	1,151,045	1,151,045
200. Treasury shares (-)	(30,847)	(30,590)
210. Non-controlling interests (+/-)	65,423	60,220
220. Net profit (loss) for the period (+/-)	29,357	(24,067)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>38,127,486</b>	<b>46,854,799</b>

## CONSOLIDATED INCOME STATEMENT

	31/12/2017	31/12/2016
10. Interest and similar income	529,827	551,281
20. Interest and similar expense	(210,004)	(206,642)
<b>30. Net interest income</b>	<b>319,824</b>	<b>344,639</b>
40. Fee and commission income	572,478	510,993
50. Fee and commission expense	(354,743)	(318,191)
<b>60. Net fee and commission income (expense)</b>	<b>217,735</b>	<b>192,802</b>
70. Dividends and similar income	2,053	1,935
80. Net gain (loss) on trading activities	15,093	10,930
90. Net gain (loss) on hedging activities	(1,285)	992
100. Net gain (loss) on the disposal or repurchase of:	104,353	71,742
a) loans	146	(7,965)
b) financial assets available for sale	31,584	83,394
c) financial assets held to maturity	73,519	-
d) financial liabilities	(896)	(3,686)
110. Net gain (loss) on financial assets and liabilities designated as at fair value	1,264	2,133
<b>120. Gross income</b>	<b>659,037</b>	<b>625,173</b>
130. Net losses/recoveries on impairment:	(177,660)	(158,972)
a) loans	(146,325)	(141,803)
b) financial assets available for sale	(24,068)	(13,513)
d) other financial transactions	(7,268)	(3,656)
<b>140. Net income (loss) from financial operations</b>	<b>481,376</b>	<b>466,201</b>
180. Administrative expenses:	(488,058)	(535,697)
a) personnel expenses	(189,310)	(215,845)
b) other administrative expenses	(298,747)	(319,852)
190. Net provisions for risks and charges	2,773	(6,685)
200. Net adjustments of property and equipment	(19,043)	(17,202)
210. Net adjustments of intangible assets	(10,993)	(13,317)
220. Other operating expenses/income	94,405	95,711
<b>230. Operating expenses</b>	<b>(420,917)</b>	<b>(477,190)</b>
240. Profit (loss) from equity investments	4,252	4,445
250. Net gain (loss) from valuation at fair value of property and equipment and intangible	(22,171)	(34,784)
260. Goodwill impairment	(907)	-
270. Profit (loss) from disposal of investments	4,995	(19)
<b>280. Profit (loss) before tax on continuing operations</b>	<b>46,629</b>	<b>(41,347)</b>
290. Income tax expense from continuing operations	(11,125)	19,654
<b>320. Net profit (loss) for the period</b>	<b>35,504</b>	<b>(21,693)</b>
330. Net profit (loss) for the period – non-controlling interests	6,147	2,374
<b>340. Net profit (loss) for the period – shareholders' of the Parent Company</b>	<b>29,357</b>	<b>(24,067)</b>

## STATEMENT OF COMPREHENSIVE INCOME

	31/12/2017	31/12/2016
10. Net profit (loss) for the period	35,504	(21,693)
40. Defined-benefit plans	19	(791)
90. Cash-flow hedges	1,326	(1,574)
100. Financial assets available for sale	(1,530)	(31,875)
120. Share of valuation reserves of equity investments accounted for with equity method	(88)	(746)
<b>130. Total other comprehensive income net of taxes</b>	<b>(274)</b>	<b>(34,986)</b>
<b>140. Comprehensive income (Item 10+130)</b>	<b>35,230</b>	<b>(56,679)</b>
150. Comprehensive income pertaining to non-controlling interests	6,153	2,305
<b>160. Comprehensive income pertaining to shareholders' of the Parent Company</b>	<b>29,077</b>	<b>(58,984)</b>

## STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY - 2017

	As at 31/12/2016	Change in opening balance	Allocation of net profit of previous dividends			Change in the period							Shareholders' equity as at 31/12/2017	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests	
			Reserves	Dividends and other allocations	Change in reserves	Equity transactions										
						Issues of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income 31/12/2017			
Share capital:																
a) ordinary shares	1,201,940		1,201,940	-	-	200	-	-	-	-	-	-	-	1,202,140	1,151,045	51,095
b) other shares	985		985	-	-	-	-	-	-	-	-	-	-	985	-	985
Share premium reserve	5,252		5,252	-	-	(41)	-	-	-	-	-	-	-	5,211	4,747	464
Reserves:																
a) earnings	426,272		426,272	(21,693)	(14,049)	(818)	-	-	-	-	-	-	-	389,712	382,988	6,724
b) other							-	-	-	-	-	-	-			
Valuation reserves	73,850		73,850	-	-	-	-	-	-	-	-	-	(274)	73,576	73,569	8
Equity instruments																
Treasury shares	(30,835)		(30,835)	-	-	(12)	-	-	-	-	-	-	-	(30,847)	(30,847)	
Net profit (loss) for the period	(21,693)		(21,693)	21,693	-	-	-	-	-	-	-	-	35,504	35,504	29,357	6,147
<b>Total shareholders' equity</b>	<b>1,655,771</b>		<b>1,655,771</b>	<b>-</b>	<b>(14,049)</b>	<b>(671)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,230</b>	<b>1,676,281</b>	<b>1,610,858</b>	<b>65,423</b>
<b>Shareholders' equity pertaining to shareholders of Parent Company</b>	<b>1,595,550</b>		<b>1,595,550</b>	<b>-</b>	<b>(11,676)</b>	<b>(2,093)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,077</b>	<b>1,610,858</b>		
<b>Shareholders' equity pertaining to non-controlling interests</b>	<b>60,220</b>		<b>60,220</b>	<b>-</b>	<b>(2,373)</b>	<b>1,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,152</b>	<b>65,423</b>		



## STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY - 2016

	As at 31/12/2015	Change in opening balance	As at 1/1/2016	Allocation of net profit of previous dividends		Change in the period							Shareholders' equity as at 31/12/2016	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests		
				Reserves	Dividends and other allocations	Equity transactions											
						Change in reserves	Issues of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income 31/12/2016			
Share capital:																	
a) ordinary shares	1,167,170		1,167,170				34,770								1,201,940	1,151,045	50,895
b) other shares	985		985												985		985
Share premium reserve	5,159		5,159										93		5,252	4,747	505
Reserves:																	
a) earnings	397,611		397,617	27,680		2,654							(1,679)		426,272	420,567	5,704
b) other	3,374		3,374			(3,374)											
Valuation reserves	108,112		108,114			720								(34,985)	73,850	73,848	2
Equity instruments																	
Treasury shares	(8,087)		(8,087)					(22,748)							(30,835)	(30,590)	(245)
Net profit (loss) for the period	45,477		45,477	(27,680)	(17,797)									(21,693)	(21,693)	(24,067)	2,374
<b>Total shareholders' equity</b>	<b>1,719,801</b>	<b>-</b>	<b>1,719,809</b>	<b>-</b>	<b>(17,797)</b>	<b>-</b>	<b>34,770</b>	<b>(22,748)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,586)</b>	<b>(56,678)</b>	<b>1,655,771</b>	<b>1,595,550</b>	<b>60,220</b>
<b>Shareholders' equity pertaining to shareholders of Parent Company</b>	<b>1,692,912</b>	<b>-</b>	<b>1,692,910</b>	<b>-</b>	<b>(14,086)</b>	<b>-</b>	<b>-</b>	<b>(22,586)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,706)</b>	<b>(58,983)</b>	<b>1,595,550</b>		
<b>Shareholders' equity pertaining to non-controlling interests</b>	<b>26,889</b>	<b>-</b>	<b>26,898</b>	<b>-</b>	<b>(3,711)</b>	<b>-</b>	<b>34,770</b>	<b>(162)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120</b>	<b>2,305</b>	<b>60,220</b>		

## STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2017	31/12/2016
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>269,758</b>	<b>226,420</b>
- net profit (loss) for the period (+/-)	35,504	(21,693)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(5,151)	11,433
- gains (losses) on hedging activities (-/+)	1,285	(992)
- net losses/recoveries on impairment (+/-)	179,509	180,012
- net adjustments of property and equipment and intangible assets(+/-)	30,036	30,520
- net provisions for risks and charges and other costs/revenues (+/-)	19,226	37,085
- taxes, duties and tax credits to be settled (+/-)	6,940	4,140
- net adjustments of disposal groups held for sale net of tax effects (+/-)		
- other adjustments (+/-)	2,410	(14,084)
<b>2. Net cash flows from/used in financial assets</b>	<b>4,179,695</b>	<b>2,106,926</b>
- financial assets held for trading	94,191	(10,268)
- financial assets at fair value through profit or loss	-	(1,006)
- financial assets available for sale	2,105,489	1,586,066
- due from banks: repayable on demand	(89,179)	(1,313)
- due from banks: other	3,280,420	(938,799)
- loans to customers	(1,328,948)	(385,872)
- other assets	117,723	1,858,117
<b>3. Net cash flows from/used in financial liabilities</b>	<b>(9,151,288)</b>	<b>(1,710,825)</b>
- due to banks: repayable on demand	(1,824,059)	(209,163)
- due to banks: other	8,336,426	(431,990)
- due to customers	(16,758,311)	(789,353)
- securities issued	1,212,851	59,959
- financial liabilities held for trading	(53,167)	(54,064)
- financial liabilities at fair value through profit or loss	(20,883)	(410,638)
- other liabilities	(44,146)	124,425
<b>Net cash flows from/used in operating activities</b>	<b>(4,701,835)</b>	<b>622,521</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows from</b>	<b>4,767,122</b>	<b>34,625</b>
- sales of equity investments	-	-
- sales of property and equipment	5,324	13,791
- dividends on equity investments	23,189	20,843
- sales of financial assets held to maturity	4,738,609	-
<b>2. Cash flows used in</b>	<b>(53,895)</b>	<b>(660,876)</b>
- purchases of equity investments	-	-
- purchases of property and equipment	(33,230)	(21,025)
- purchases of intangible assets	(20,665)	(7,783)
- purchases of financial assets held to maturity	-	(632,068)
<b>Net cash flows from/used in investing activities</b>	<b>4,713,226</b>	<b>(626,251)</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of own shares	(12)	30,270
- dividend distribution and other	(14,049)	(17,797)
<b>Net cash flows from/used in financing activities</b>	<b>(14,061)</b>	<b>12,473</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,669)</b>	<b>8,743</b>

Key

(+) generated

(-) used in

## RECONCILIATION

	31/12/2017	31/12/2016
Cash and cash equivalents at beginning of period	113,310	104,567
Net increase/decrease in cash and cash equivalents	(2,669)	8,743
Cash and cash equivalents at end of period	110,641	113,310

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## **PART A**

### Accounting policies



## A.1 – GENERAL INFORMATION

### 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 consolidated financial statements of Iccrea Group have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These consolidated financial statements at December 31, 2017 have been prepared according to Circular no. 262 of December 22, 2005 on the format and rules for preparation of bank financial statements – 4th update of December 15, 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005.

These instructions contain binding formats for the financial statements and the procedures for completing the schedules, as well as the content of the notes to the financial statements.

The IASs/IFRSs applied in preparing the consolidated financial statements were those in force at December 31, 2017 as endorsed by the European Commission (including the interpretations issued by the IFRIC).

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1905/2016	<p><b>IFRS 15 Revenue from contracts with customers.</b> The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition “at a point in time”, while the second provides for recognition “over time”. The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.</p>	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
2067/2016	<p><b>IFRS 9 Financial instruments</b> The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.</p>	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
1989/2017	<p><b>Amendments to IAS 12 Income taxes – Recognition of deferred tax assets for unrealized losses</b> The amendments clarify how to account for deferred tax assets in respect of debt instruments measured at fair value.</p>	Annual reporting periods beginning on January 1, 2017.
1990/2017	<p><b>Amendments to IAS 7 Statement of cash flows – Disclosure initiative</b> The clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.</p>	Annual reporting periods beginning on or after January 1, 2017.
182/2018	<p><b>Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IFRS 12</b> The objective of the annual improvements is to clarify the scope of the disclosures provided for in IFRS 12 – Disclosure of interests in other entities.</p>	Annual reporting periods beginning on or after January 1, 2017

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	<b>IFRS 16 Leases</b> The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.
1988/2017	<b>Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</b> The amendments of IFRS 4 seek to remedy the temporary accounting effects of the mismatch between the effective date of IFRS 9 and the effective date of the new IFRS 17 on insurance contracts, which replaces IFRS 4 ..	Annual reporting periods beginning on or after January 1, 2018..
182/2018	<b>Annual improvements to IFRS Standards 2014-2016 cycle involving amendments to IAS 28 and IFRS 1</b> The amendments regarded the elimination of the short-term exemptions envisaged for First-Time Adoption of IFRS1, and the classification and measurement of equity investments measured at fair value through profit or loss in accordance with IAS 28 – Investments in associates and joint ventures.	Annual reporting periods beginning on or after January 1, 2018..
289/2018	<b>Amendments to IFRS 2 Share-based payment</b> The amendments are intended to clarify the accounting treatment for certain types of share-based payment schemes.	Annual reporting periods beginning on or after January 1, 2018.
400/2018	<b>Amendments to IAS 40 Investment property – Transfers of investment property</b> The amendments clarify when an entity may modify the classification of a property when it was not held as “investment property” and vice-versa.	Annual reporting periods beginning on or after January 1, 2018..
498/2018	<b>Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation</b> The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied.	Annual reporting periods beginning on or after January 1, 2019.
519/2018	<b>IFRIC 22 – Foreign currency transactions and advance consideration</b> The interpretation clarifies the accounting treatment for transactions that involve the receipt or payment of advance consideration in a foreign currency.	Annual reporting periods beginning on or after January 1, 2018.
To be determined	<b>IFRS 17 Insurance contracts</b> The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2021.
To be determined	<b>IFRIC 23 – Accounting for uncertainties in income taxes</b> The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	<b>Amendments to IAS28</b> The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019.
To be determined	<b>Amendments to IAS 19</b> The amendments specifies how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019
To be determined	<b>Annual improvements to IFRS Standards 2015-2017 cycle</b> The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019



## Compliance with IFRS 9

With regard to the new accounting standard IFRS 9 “Financial instruments”, which entered force on January 1, 2018, endorsed with Regulation (EU) 2067/2016, replacing IAS 39 “Financial instruments: recognition and measurement”, in compliance with the requirements of IAS 8, paragraphs 30 and 31, we provide the following information on the impact of the application of the new standard. Furthermore, although the recommendations of the European Securities and Markets Authority (Public statement on European common enforcement priorities for 2017 IFRS financial statements) are not strictly applicable, we have nevertheless provided information on the judgmental aspects of the introduction of the standard, such as the business model, the SPPI test (Solely Payments of Principal and Interests), SICR (Significant Increase in Credit Risk), the definition of default and analyses of the “forward-looking” component within ECL models.

### *THE REQUIREMENTS OF IFRS 9*

The entry into force of IFRS 9 will bring changes, which can be summarized in the following three main areas:

- classification and measurement - the standard introduces new accounting classifications depending on the business models and the financial characteristics of cash flows (so-called SPPI - Solely Payments of Principal and Interests);
- impairment - the standard introduces a new expected credit loss approach (ECL) to replace the incurred loss approach envisaged under IAS 39, providing for the adoption of a single model encompassing all financial assets except those measured at the fair value through profit or loss (FVTPL);
- hedge accounting - the standard introduces changes in the area of micro hedging, bringing hedge accounting into a risk management perspective, while macro hedging does not currently fall within the scope of IFRS 9.

With regard to “classification and measurement” aspects issues, IFRS 9 establishes three measurement criteria for financial assets:

- amortized cost (hereinafter also “AC”);
- fair value through other comprehensive income (hereinafter also “FVTOCI”);

fair value through profit or loss (hereinafter also “FVTPL”).

For financial assets represented by debt securities, the determination of the measurement criterion is depends both on the business model of the portfolio to which it belongs and to the characteristics of the contractual cash flows of the financial instrument.

Equity instruments are classified in the FVTPL category, with the exception of the irrevocable option to classify equity instruments not held for trading in the FVOCI category. In this case only dividends are recognized in profit or loss, while changes from measurement and gains or losses on disposal are recognized in other comprehensive income.

The obligation to separate embedded derivatives in financial liabilities has been retained. The full recognition of changes in fair value through profit or loss is required, for instruments other than derivatives, only for financial liabilities held for trading. In this area, IFRS 9 has maintained the approach already adopted in IAS 39.

With reference to impairment, the standard introduces a single model, based on the concept of expected loss extended to performing on- and off-balance-sheet assets that are not measured at FVTPL. IFRS 9 establishes that at each reporting date the loss allowance for a financial instrument shall be measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The verification of the presence of a significant increase in credit risk is based on a stage allocation process which provides for the classification of financial assets into three stages, applying the calculation of the 12-month expected credit loss to stage 1; and the lifetime expected credit loss on the instrument to stages 2 and 3.

With reference to “hedge accounting”, the standard revises the rules for the designation of a hedging relationship and for verifying its effectiveness in order to ensure greater alignment between the accounting representation of

the hedges and the underlying management rationale, confirming the adoption of a more risk-management oriented approach. It is emphasized that the regulatory changes only concern “general hedge accounting”, for which the standard provides for the possibility of applying the rules set by the new standard rather than continuing to apply IAS 39 (the “Opt-in/Opt-out” option).

#### *THE IFRS 9 IMPLEMENTATION PROJECT ADOPTED BY THE ICCREA BANKING GROUP*

The Iccrea Banking Group began work for the adoption of the new IFRS 9 in September 2016, following a preliminary assessment carried out in 2014 aimed at obtaining an initial estimate of the potential impact of its introduction.

Given the importance of the project and the impact of the changes introduced by the new standard, the activities were governed by a Steering Committee composed of members of top management. The project was structured into three macro-areas mirroring the three areas into which the standard is organized, namely classification and measurement, impairment and hedge accounting. For each project area, an operational manager was appointed.

Since the standard has a considerable impact and impacts many aspects of corporate operations, a large number of the Group’s units have been actively involved in the project: the areas most affected by the implementation of the new standard were Administration, Risk Management, Lending, Finance, Organization and Projects, IT, ALM and Consulting and Planning and Management Control. Together with the operational units, internal control functions such as Internal Audit and the Board of Auditors were also part of the project.

The IFRS 9 project was programmed an extended period of time and was divided into macro-phases, which were generally conducted one after the other, such as:

- an initial stage of assessment and definition of preliminary choices;
- a second design and construct stage, with analysis of the implementation solutions for the macro-areas, determining the preferred choices, together with the design of the operating models;
- a third phase of development, implementation and testing of the procedures and applications adopted, together with activities aimed at ensuring the adjustment and consolidation of internal rules within the Group.

The Group periodically informed the audit firm of the methodological choices adopted in the course of the project and of the implementation framework.

In order to provide information on developments in the various components of the project, the plan activities were developed from the assessment phase through to completion of the implementation phase, so as to ensure the prompt availability of all the tools and resources necessary to allow the Group to adopt the standard with effect from January 1, 2018.

With regard to the “classification and measurement” project, in the assessment phase detailed analyses were conducted of the Group’s loans and securities portfolios, the functional requirements for the SPPI test were analyzed, in order to illustrate the underlying assumptions and provide support for the relevant decisions in this area and the main organizational impacts were delineated.

In the design and construct phase, following the definition of the previous phase, the business models were defined for each Group company, the analysis of the operating scenarios was developed to identify the main organizational, process and technological impacts necessary to start the implementation construction phase. The project results were developed into specific policy documents and processes to govern the transition to the new standard. During the implementation phase, all the necessary measures were developed and implemented, while policies and internal process adjustments were refined and incorporated in the Group’s internal rules, enabling the necessary changes in compliance with the standard.

With regard to the “impairment” project, during the assessment phase the analysis of the systems used to measure the risk parameters for the calculation of the provisions and the mapping of the regulatory requirements was carried out. In the design and construct phase the activities focused on the methodological and organizational design of the transition. In particular, on the methodological front the solutions for calculating impairment were developed on the basis of the specific characteristics of each Group company, with particular reference to stage allocation and estimation of risk parameters, while on the technological front, application solutions were developed to enable the implementation of the methodological and functional inputs developed within the project and the calculation of the necessary provisions in compliance with the standard, in accordance with the

operational implementation of that standard by the Group. The project results were incorporated in specific policy documents and processes aimed at governing the transition to the new standard. During the implementation phase, all the necessary measures were developed and implemented, while policies and internal process adjustments were refined and incorporated in the Group's internal rules, enabling the necessary changes in compliance with the standard.

With regard to the "hedge accounting" project, the Group conducted an impact analysis of the requirements of IFRS 9, analyzing both the Group's existing hedging relationships and the "effectiveness testing" service provided to the participating mutual banks, conducting an analysis of the pros and cons of the adopting the IFRS 9 general hedge accounting model. In light of the results of the analyses conducted during the project, the Iccrea Banking Group has decided to postpone the adoption of the new IFRS 9 hedge accounting model until after January 1, 2018. Accordingly, there are no impacts related to this component.

With reference to information systems, the areas of greatest impact were identified with the implementation of special gap analysis activities, identifying all the necessary changes to be made and identifying the applications and procedures to be adjusted. In particular, with regard to the implementation of IT systems, we proceeded to upgrade the new software applications necessary for managing the new classification and measurement processes related to the business model and the SPPI test, together with the tools and applications needed to calculate the expected loss and inclusion of forward-looking factors in the definition of impairment. With particular reference to the SPPI test, the procedures to perform the test were identified, as were the platforms on which the SPPI methodology adopted by the Group would be applied, both for debt securities and for credit exposures in the strict sense. With particular regard to the determination of ECL, the implementation activities associated with estimating expected losses were completed with the adoption of solutions and applications managed by leading system operators.

In 2017 the Group underwent the thematic analysis conducted by the Single Supervisory Mechanism (SSM) of credit institutions (the "thematic review"), in order to assess the state of preparation for the application of IFRS 9. In this context, the Group provided documentation and analyses demonstrating the Group's analysis and assessments of IFRS 9 project areas. All the progress made on the project, together with the initial impact assessments, were discussed and shared with the European Central Bank during the course of the project. This activity will continue during 2018.

#### *DISCLOSURES ON THE IMPACT OF THE APPLICATION OF IFRS 9*

The following is a brief description of the main decisions, choices and activities carried out for each project area.

*Classification and measurement* - In order to comply with IFRS 9 – which introduces a model under which the classification of financial assets represented by debt securities is guided, on the one hand, by the management intent for which they are held (the business model) and, on the other, by the contractual characteristics of the instruments' cash flows (the SPPI test) – project activities were aimed at identifying the business model in use and that to be adopted, as well as establishing the procedures for conducting the SPPI test based on the characteristics of the contractual cash flows.

More specifically, with regard to business models, analyses were conducted to determine the business models of the financial instruments for each company of the Iccrea Banking Group, taking account not only of the current operations of the Group companies, but also the outlook for Group operations in the light of the forthcoming establishment of the Mutual Banking Group. Having taken account of the outlook for Iccrea Banking Group, business models were assigned to financial assets, as required under the standard, on the basis of the following drivers:

- portfolio granularity and level of definition of the business;
- identification of key management personnel;
- the nature of products and type of underlying asset;
- methods for assessing performance and how this is reported to key management personnel;
- the risks that affect the business model and how these risks are managed;
- how managers are compensated;

- sales.

The standard specifies three possible business models representing the entity's asset management objectives, namely:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty. For types of sale that were undertaken for other reasons, in line with the requirements of the standard, the Group has defined and regulated the types of permitted sales and the associated levels of significance, frequency and proximity to maturity, thresholds to analyze and monitor in order to **consider possible sales consistent with a hold to collect business model**.

**As regards the business models identified in the Group**, in general the current loan management approach is consistent with the hold to collect business model, while the management of finance portfolios is consistent with hold to collect and hold to collect and sell business models.

With regard to the SPPI test, the guidelines for the performance of the test that represent the method adopted by the Group have been defined and incorporated in company rules, offering guidance for the analysis of contractual provisions of instruments by all the units involved. In this context, it is useful to highlight how the approach adopted by the Group is differentiated on the basis of the nature of the financial assets, such as the loan book and the finance book. The evaluations conducted by the Group made it possible, for the loan book, to reflect these decision flows in the Group's IT application systems, which have therefore been duly implemented and integrated to enable users to perform SPPI testing, including the component connected with the benchmark test. With specific regard to benchmark testing, it is important to note that the Group has conducted specific analyses to define its own methodology, subsequently implemented in its application systems. The Group is now able to assess the significance of the modified time value of money deriving from the mismatch between the tenor and the refinancing of the interest rate and to assign the correct outcome of the benchmark test and, consequently, the SPPI test. In this regard, although credit products with that mismatch are common, the number of cases that do not pass the test is very small.

With specific regard to financial assets represented by finance securities, the implementation choice adopted by the Group was to supplement the information set contained in the securities registry, which is centrally managed by the Parent Company, with the results of the test provided by an infoprovider specialized in the financial sector, who has been working for some time with mutual banking system. This service, which has been configured on the basis of the specific choices and guidelines adopted by the Group with regard to SPPI testing, including, where necessary, the performance of the benchmark test, makes it possible to acquire a SPPI test result from the first sale evaluation by the finance professional. Given the current composition of the Group's finance portfolio and the contractual characteristics of the financial instruments in it, the impact of the SPPI test is not considered significant and the majority of the instruments comply with the criteria for measurement at amortized cost/FVOCI in accordance with IFRS 9.

Although the changes and the consequent impacts of the standard mainly refer to financial assets represented by debt, such as loans and the finance book, it is important to note that for equity instruments other than equity investments in associates or subsidiaries, IFRS 9 requires that such instruments be measured at fair value through profit or loss, with an option for the entity to make an irrevocable choice to report changes in fair value in other comprehensive income where the conditions envisaged in the standard are met. In this regard, the Group deemed it appropriate to exercise the OCI option for "instrumental" shareholdings (i.e. equity interests of a size below the

threshold that would qualify them as investments in associates) and for equity instruments issued by other mutual banks (for example, by mutual banks as part of rescue operations coordinated by the funds of the mutual banking industry). With regard to other equity investments that cannot be classified as investments in associates or subsidiaries, it was considered appropriate to use measurement at fair value through profit or loss.

As regards other instruments such as units in collective investment undertakings, policies and derivatives, the Group decided it was appropriate to use FVTPL as the measurement criterion, taking account of the negative result of the SPPI test for units in CIUs and policies, while for derivatives the approach is in line with the provisions of IAS 39.

*Impairment* - IFRS 9 requires that the Group, at each balance sheet date, assess whether the credit risk related to the individual financial instrument has increased significantly since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology developed by the Iccrea Banking Group for the individual Group companies for the loan and securities portfolio provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

With regard to the debt securities portfolio outstanding at the reporting date, the Group's methodology envisages using the low credit risk exemption, which, regardless of the presence or not of a rating at origination, allocates to stage 1 exposures that have a rating equal to or better than investment grade at the reporting date.

With regard to the loan portfolio, the methodology developed by the Group envisages:

- conventionally allocating certain exposures to stage 1, such as: exposures to mutual banks or Group companies, exposures to employees of the Company, overcollateralized exposures and any specific exposures of the individual company;
- the use, where a rating system is available, of quantitative criteria based on the analysis and comparison of the PD at origination with the PD at the reporting date. If there is no origination PD and only the reporting date PD is available, the methodology provides for the use of the practical expedient of the low credit risk approach;
- the use of qualitative criteria, defined on the basis of the monitoring processes in place at the individual Group companies, to identify the most risky positions in the performing portfolio. These criteria have been defined independently of the use or not of quantitative criteria and can be summarized in: watchlist positions, positions with more than 30 days past due, forbore performing exposures and other specific criteria of the individual company.

With regard to Expected Credit Loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;

- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Iccrea Group envisages:
  - where a rating model is available, building, if not already provided by the model, a transition matrix based on rating classes from the model, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
  - where a rating system is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the estimate of the LGD for the majority of Group companies is obtained as the ratio of total specific writedowns to total non-performing exposures, in some cases appropriately adjusted for the danger rate matrix
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group annually estimates the models for obtaining projections of changes in the riskiness of the portfolio (PD) and losses generated by default of the debtor counterparties (LGD), based on a defined time horizon and certain reference variables (default rates, amount of bad loans, etc.).

In order to obtain a probability of default that reflects future macroeconomic conditions, "satellite models" are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. Based on the estimates, the multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

For the purpose of applying these multipliers, the Iccrea Group associates the probability of occurrence on a judgmental basis to the two scenarios, used as weights in the calculation of the average multiplier associated with each calendar year.

More specifically, three calendar years are considered subsequent to the estimation date of the satellite models (reference date), while for subsequent years, it is assumed that the economic cycle can be contained within a time horizon of three years, therefore the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

In order to render the LGD forward looking, the Group estimates a regression model that explains the relationship that links a variable able to approximate losses in the event of system default (for example, gross non-performing loans for the entire system) with a set of explanatory macroeconomic variables, using the same approach adopted to condition the PD to estimate the multipliers.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of "impaired loans" in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions connection with the company's objectives for reducing non-performing assets, to which a probability of realization was attributed for consideration in the context of the overall assessments. It follows that, for transferrable non-performing loans, in order to determine the overall expected loss of exposures, the "ordinary" scenario assuming a recovery strategy based on the recovery of receivables through legal action, the enforcement

of guarantees, etc. , has been accompanied by scenarios that envisage the sale of the loan as a recovery strategy.

In this regard, Iccrea Banca SpA – the future Parent Company of the emerging Mutual Banking Group – has established a structured operating process that provides for the involvement of a specialist desk (MBG - "NPL Reduction Project") established for the purpose of:

- providing support in the valuation of carrying amounts, considering sales scenarios in accordance with IFRS 9 of the individual potentially transferable positions, with the involvement of BCC Gestione Crediti;
- providing assistance with any accounting assessments, as well as in updating the plans to reduce NPLs already prepared at individual level, in the light of changes in conditions for their management, and in determining the consequent Board-level steps;
- supporting the companies of the existing Iccrea Banking Group and the mutual banks participating in the formation of the Mutual Banking Group in the analysis of the impact on their technical and financial situation.

As regards the prudential aspects, the initial impact of the different methods of determining impairment – i.e. the increase in writedowns measured at January 1, 2018 compared to those measured at December 31, 2017 deriving from the introduction, with IFRS 9, of new estimation methods compared with those envisaged by IAS 39 (first-time adoption) – falls within the scope of application of the prudential filter for CET1 defined by the European Parliament in December 2017 (Article 473a of Regulation (EU) No. 575/2013), the phase-in factors of which are shown below:

- a) 0.95 between January and December 2018;
- b) 0.85 between January and December 2019;
- c) 0.7 between January and December 2020;
- d) 0.5 between January and December 2021;
- e) 0.25 between January and December 2022.

The prudential regulations allow, in first-time adoption, any estimated losses on impaired loans to be treated using the phase-in mechanism. This is possible as long as the estimate of such losses is not strictly related to the forecasts for recovery of the loan over its lifetime through traditional "ordinary" actions (the so-called hold scenario), in which case the valuation must be carried out in accordance with the previous accounting standard.

The reduction in the stock of non-performing loans together with the application of IFRS 9 would make it possible, in the phase-in period established in European legislation, to:

- directly recognize the effects of losses in equity, which, considering the different recovery strategy, would also be estimated by considering sales scenarios instead of at their carrying amount as determined on the basis of the difference between expected cash flows and those contractually due (using the effective interest rate). This is in full compliance with the guidelines of the ITG;
- amortize the negative reserve that would be created over five years for capital purposes, with a smaller impact in the first two years due to the "non-linear" procedure defined by the regulator, therefore making it possible to plan appropriate capital management actions;
- foster a greater focus on the core business and at the same time meet the expectations of the supervisory authorities and the market regarding the achievement of an "acceptable" level for the NPL ratio;
- enhance the efficiency of the management of the highest quality non-performing positions – i.e. those for which the available information suggests are at lower risk of further significant writedowns looking forward, given the status of recovery/guarantee enforcement procedures - in order to maximize cure rates;
- increase the focus on the proactive management of unlikely-to-pay positions, on which the European supervisory authorities are reported to be focusing their attention in order to improve cure rates.

As regards the foregoing, the main quantitative impacts are essentially attributable to the application of the new impairment model, which will entail an increase in provisions due to the inclusion i) of lifetime expected losses on

unimpaired assets classified in stage 2; ii) of the forecast macroeconomic scenarios for all credit categories; and iii) of the prospective sales scenarios for an identified portfolio of gross impaired loans that has been associated with a probability of sale in line with the NPL strategy.

On the basis of the available information, it is estimated that first-time adoption of IFRS 9 as of January 1, 2018, will have an impact on the fully loaded CET1 ratio generated by the application of the new impairment model to loans and debt securities, gross of tax effects, in a range of between 70 and 90 basis points.

The Banking Group has exercised the option to adopt the phase-in regime, in accordance with the aforementioned Regulation. Accordingly, in 2018 the Iccrea Banking Group may sterilize 95% of the negative impact on CET1 of the impairment on performing loans and debt securities and impaired positions.

### Compliance with IFRS 15

*IFRS 15 - Revenue from contracts with customers* applies to all contracts with customers with the exception of lease contracts, insurance contracts and financial instruments that fall within the scope of other specific international accounting standards.

The standard prescribes the rules for the recognition of revenue, introducing an approach that provides for their recognition when control over the promised goods or services is transferred to the customer and the recognition of revenue in an amount that reflects the consideration to which the company expects to be entitled in exchange for the goods or services.

IFRS 15 provides for the recognition of revenue on the basis of the following five steps:

- identification of the contract with the customer;
- identification of the performance obligations;
- determination of the transaction price;
- allocation of the transaction price to performance obligations;
- recognition of revenue on the basis of satisfaction of the performance obligation (“at a point in time” or “over time”).

The standard also introduces new rules for recognizing costs incurred in obtaining and performing a contract, allowing them to be recognized as an asset if the entity expects to recover them with the execution of the contract.

The Iccrea Group has conducted a preliminary assessment of contracts with major customers using gap analysis with respect to the revenue recognition rules provided for in the old IAS 18 in order to identify the areas impacted by IFRS 15. The implementation of the standard is nearing completion, even before the publication of the guidelines that were issued by the Transition Resource Group for Revenue Recognition. Based on the analysis conducted so far and considering the nature of the main revenue items analyzed, the expected effects of the implementation of the standard on the balance sheet and income statement are not considered significant.

### Section 2: General preparation principles

The consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders’ equity, the statement of cash flows, and the notes to the financial statements, along with the report on operations and the performance and consolidated financial position.

Unless otherwise specified the figures in the financial statements and the explanatory notes 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 the figures for the present period as well as comparative figures at December 31, 2016.

Any reclassifications made to improve the representation of events are disclosed in the comments on the items.

#### *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 consolidated financial statements at December 31, 2017, as provided for by the accounting standards and applicable legislation referred to earlier.

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

The estimation process supported the carrying amounts recognized at December 31, 2017. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

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

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

## **Content of the financial statements**

### *BALANCE SHEET AND INCOME STATEMENT*

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

### *STATEMENT OF COMPREHENSIVE INCOME*

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

### *STATEMENT OF CHANGES IN EQUITY*

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

shares have been issued.

#### STATEMENT OF CASH FLOWS

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

#### Contents of the notes to the financial statements

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

### Section 3 – Scope and methods of consolidation

The consolidated financial statements include the financial statements of Iccrea S.p.A. and the financial statements of its direct and indirect subsidiary companies. The scope of consolidation is defined on the basis of the provisions of IFRS 10, 11 and 12 and IAS 31.

#### Subsidiaries

The scope of consolidation is established in accordance with the provisions contained in IFRS 10 "Consolidated financial statements". Under the standard, the requirement of control is the basis for the consolidation for all types of entities and is met when an investor simultaneously has:

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

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

The carrying amount of equity interests in companies either consolidated on a line-by-line basis, held by the Parent Company or other companies within the Group, is eliminated – as the subsidiaries' assets and liabilities are absorbed into those of the Group – offsetting the corresponding percentage of the subsidiaries' equity pertaining to the Group.

Asset and liability items, off-balance sheet transactions, expenses and income, as well as profits and losses which occur between companies falling within the scope of consolidation are eliminated, in accordance with the consolidation method adopted.

Costs and revenues of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenues from a subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 270 "Gain/(loss) from the disposal of investments".

The share pertaining to non-controlling interests is presented on the balance sheet under item 210. "Non-controlling interests", separately from the liabilities and shareholders' equity pertaining to the shareholders of the Parent Company. The portion pertaining to non-controlling interests is also presented separately in the income statement, under item 330 "Profit/(loss) pertaining to non-controlling interests".

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred

in order to obtain control of that equity interest, inclusive of ancillary costs, is measured as at the acquisition date. Controlling equity investments held for sale are consolidated on a line-by-line basis and reported separately in the financial statements as a disposal group valued as of the balance sheet date at the lower of carrying amount or fair value less costs to sell.

### **Associated companies**

Associates are companies over which the Company exercises a significant influence and that is neither a subsidiary nor a joint venture. Significant influence is assumed to exist when the parent company:

- directly or indirectly holds at least 20% of the voting rights of another company;
- is able, including through shareholders' agreements, to exercise significant influence through:
  - representation on the company's management body;
  - participation in the process of setting policies, including participation in the decision-making process concerning dividends;
  - the existence of significant transactions;
  - the exchange of management personnel.

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. Shares of the profits and losses after acquisition of the associated company are recognized in profit or loss under item 240 "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment.

If the portion of the losses pertaining to the Group equals or exceeds the carrying amount of the investment in the associate, further losses are not recognized unless there is contractual obligation to cover such losses or in the presence of payments made on behalf of the associate.

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group's interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved.

Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

### **Joint arrangements**

A joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. At December 31, 2017 the Group had no interest in joint arrangements.

The table below reports the companies that fall within the scope of consolidation on a line-by-line basis.

## 1. Equity investments in subsidiaries

		Registered office	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
<b>A.</b>	<b>Consolidated on a line-by-line basis</b>					
1.	Bcc Risparmio & Previdenza SGrpA	Milan	1	Iccrea Banca SpA	75	75
2.	Iccrea Bancalmpresa SpA	Rome	1	Iccrea Banca SpA	99.33	99.33
3.	Bcc Factoring SpA	Rome	1	Iccrea Bancalmpresa SpA	100	100
4.	Bcc Gestione Crediti SpA	Rome	1	Iccrea Banca SpA	55	55
5.	Bcc Solutions SpA	Rome	1	Iccrea Banca SpA	100	100
6.	Bcc Beni Immobili Srl	Rome	1	Iccrea Banca SpA	100	100
7.	Bcc Lease SpA	Rome	1	Iccrea Bancalmpresa SpA	100	100
8.	Bcc Credito Consumo SpA	Rome	1	Iccrea Banca SpA	96	96
9.	Banca Sviluppo SpA	Rome	1	Iccrea Banca SpA	68.07	68.07
10.	Bcc Retail Scarl	Milan	1	Iccrea Banca SpA	39.30	39.30
				Iccrea Bancalmpresa SpA	5.21	5.21
				Bcc Risparmio&Previdenza	12.81	12.81
				Bcc Credito Consumo SpA	3	3
				Banca Sviluppo SpA	3.23	3.23
11.	Bcc Sistemi Informatici SpA	Milan	1	Iccrea Banca SpA	98.53	98.53
				Iccrea Bancalmpresa SpA	0.003	0.003
				Banca Sviluppo SpA	0.003	0.003
12.	FDR Gestione Crediti SpA	Rome	1	Bcc Gestione Crediti SpA	100	100
13.	Fondo Securis Real Estate	Rome	4	Iccrea Banca SpA	56,55	56,55
				Iccrea Bancalmpresa SpA	21,47	21,47
14.	Fondo Securis Real Estate II	Rome	4	Iccrea Banca SpA	84.78	84.78
15.	Fondo Securis Real Estate III	Rome	4	Iccrea Bancalmpresa SpA	19.92	19.92
				Iccrea Banca SpA	67.25	67.25
16.	Securfondo	Rome	4	Iccrea Banca SpA	54.39	54.39
		Rome	4	Banca Sviluppo SpA	0.14	0.14
17.	Ventis Srl	Rome	1	Iccrea Banca SpA	95	95
18.	Iccrea Sme Cart 2016 Srl	Treviso	4	Iccrea Bancalmpresa SpA	0	0
19.	Lucrezia Securitisation Srl	Rome	4	Iccrea Banca SpA	0	0

Key:

A) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.

B) Votes available in ordinary shareholders' meeting. The SPV Iccrea Sme Cart 2016 S.r.l. is consolidated owing to the substantive control of the cash flows associated with securitization transactions carried out by Iccrea Bancalmpresa SpA. The "BCC Romagnolo" securitization of the Lucrezia Securitisation Srl vehicle has been consolidated in view of the substantive control of the cash flows associated with the transaction.

## 2. Assessment and significant assumptions in determining the scope of consolidation

Subsidiaries are entities in which the Group holds direct or indirect control. Control over an entity is demonstrated by the Group's ability to exercise the power to influence the variable returns to which the Group is exposed by virtue of such relationship.

In order to verify whether control exists, the Group considers the following factors:

- the purpose and the structure of the investee, in order to identify the entity's objectives, the activities that give rise to its returns and such activities are governed;
- power, in order to determine whether the Group has contractual rights to direct the relevant activities;
- the exposure with respect to the investee, in order to determine whether the Group has an involvement with the investee whose returns vary depending on the performance of the investee.

Where the relevant activities are directed through voting rights, the following factors provide evidence of control:

- it holds, directly or indirectly through its subsidiaries, more than half of the voting rights in an entity, unless it can be clearly demonstrated that such ownership does not constitute control;
- it holds less than half, or a smaller share, of the voting rights exercisable in the shareholders' meeting and has the practical ability to direct the relevant activities unilaterally:
  - it controls more than half of the voting rights by virtue of an agreement with other investors;
  - it has the power to determine the financial and operating policies of the entity under a provision of the bylaws or a contract;
  - it has the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and that board or body manages the entity;
  - the power to cast the majority of the voting rights at meetings of the board of directors or equivalent governing body, and that board or body manages the entity.

Subsidiaries may also include any "structured entities" in which the voting rights are not deemed significant in assessing control and include special purpose entities and investment funds.

Structured entities are treated as subsidiaries where:

- the Group has the power through contractual rights to direct the relevant activities;
- the Group is exposed to the variable returns arising from such activities.

The structured entities that are consolidated because the Group has the power to govern the relevant activities of the entity as a result of the financial instruments it has subscribed include:

- real estate investment funds;
- special purpose securitization vehicles.

#### **Structured entities – Real estate investment funds**

In the real estate investment funds, a control relationship has been deemed to exist in the following cases:

- the involvement of the investor/sponsor in structuring the operation;
- the participation of the Group companies on the committees provided for in the fund's rules (participants' advisory committee), which have the power to direct/govern the relevant activities of the fund and/or control the activities of the fund manager;
- the presence of contractual relationships that tie the fund to the Group for the subscription/placement/sale of its units;
- the purpose of the operation.

The consolidated real estate investment funds are:

- Securfondo;
- Fondo Securis Real Estate;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III.

In view of their business model (Real Estate) and the composition of their assets, essentially composed of properties measured at market value, the funds have been consolidated, recognizing their assets under property and equipment in the consolidated financial statements, recognizing any increases/decreases under “*Net gain/loss from valuation at fair value of property and equipment*” in the income statement.

### Structured entities – special purpose securitization vehicles

In the SPVs, a control relationship has been deemed to exist in the following cases:

- the involvement of the Group companies in structuring of the operation (originator/investor/servicer/facility provider);
- the subscription of substantially all of the ABSs issued by the SPV by Group companies;
- the purpose of the operation.

The consolidated special purpose securitization vehicles are Iccrea SME Cart 2016 S.r.l., originated by Iccrea BancaImpresa, and Lucrezia Securitisation S.r.l., the latter being consolidated as from 2017, for which Iccrea Banca has undertaken to subscribe all of the notes issued by the vehicle in respect of the BCC Romagnolo securitization originated by mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano).

## 3. Investments in subsidiaries with significant non-controlling interests

### 3.1 Non-controlling interests, voting rights of non-controlling interests and dividends distributed to non-controlling interests

Subsidiaries	Non-controlling interests	Dividends distributed to non-controlling interests
Bcc Gestione Crediti SpA	45%	-
Bcc Risparmio & Previdenza SGrpA	25%	4,505
Bcc Retail Scarl	40.83%	-

### 3.2 Investments in subsidiaries with significant non-controlling interests: accounting information

	Total assets	Cash and cash equivalents	Financial assets	Property and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Gross income	Operating expenses	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax on disposal groups	Profit (loss) for the period (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1)+(2)
1. Bcc Gestione Crediti SpA	13,219	1	4,926	99	447	6,398	(8)	13,142	(8,829)	4,091	2,774	0	2,774	18	2,792
2. Bcc Risparmio & Previdenza SGrpA	86,141	2	39,089	5,081	29,001	43,825	0	44,496	(18,553)	25,943	18,081	0	18,081	25	18,106
3. Bcc Retail Scarl	3,307	1	2,302	111	1	830	3	3	(173)	(169)	(142)	0	(142)	7	(135)

#### 4. Significant restrictions

There are no significant restrictions as envisaged under IFRS 12, paragraph 13, applicable to the banks and companies that form the area of consolidation of the Group.

#### 5. Other information

##### FINANCIAL STATEMENTS USED FOR CONSOLIDATION PURPOSES

The financial statements used for line-by-line consolidation are those at December 31, 2017, as approved by the competent bodies of the consolidated companies, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

#### **Section 4 – Events subsequent to the reporting date**

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

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

#### **Section 5 – Other information**

##### CONSOLIDATED TAX MECHANISM OPTION

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

##### *OTHER ISSUES*

The consolidated financial statements have undergone a limited review by EY S.p.A.

On April 6, 2018 the Board of Directors approved the consolidated financial statements of the Iccrea Group at December 31, 2017.



## A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the consolidated 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, the Iccrea Group availed itself of the option to reclassify to the “available-for-sale” category financial instruments initially recognized among “financial assets held for trading”. The impact on performance and the financial position for the current period of that previous reclassification are reported in the individual sections of the explanatory notes.

### 1 – Financial assets held for trading

#### *CLASSIFICATION*

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

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

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

#### *RECOGNITION*

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the date they are signed.

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. For financial instruments that are not listed on active markets, fair value is determined using commonly adopted estimation methods and valuation techniques that take account of all the risk factors associated with the instruments and are based on market-observable data, 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, etc. 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 traded infrequently, specific bonds, identified on a case-by-case basis with respect to the purpose for which they are purchased/held.

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

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

#### *RECOGNITION*

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

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

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

*MEASUREMENT*

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

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

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

Available-for-sale financial assets are subject to impairment testing to determine whether there is objective evidence of impairment.

Where impairment is found, the amount of this loss is measured as the difference between the carrying value and the fair value.

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

*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.

**3 – Financial assets held to maturity***CLASSIFICATION*

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

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

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

*RECOGNITION*

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

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

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

*MEASUREMENT*

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

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

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

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

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

*DERECOGNITION*

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

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

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

**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, repurchase transactions and receivables recognized by the lessor in respect of finance leasing transactions.

Loans and receivables include assets acquired through non-recourse factoring contracts, for which the risks and rewards relating to the asset have been transferred,

Reclassification to the other categories of financial assets envisaged by IAS 39 is not permitted.

In accordance with the 7th update of Bank of Italy Circular 272/2008, the new definitions of impaired credit exposures have been incorporated in the accounting policies (three categories: bad debts, positions unlikely to be repaid and past-due exposures), as well as exposures granted forbearance measures, which apply to all assets (impaired and performing).

Forborne exposures comprise debt contracts for which concessions have been granted to debtors who are unable to discharge their financial obligations (“financial difficulties”).

In order to determine whether a position qualifies as a forborne exposure, the Group determines whether any contractual modifications in favor of the customer (usually extensions of due dates, suspension of payments or refinancing) were granted in response to a situation of financial difficulty represented by the actual or potential (in the absence of concessions) accumulation of more than 30 days of arrears.

#### *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 from 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. An analogous measurement approach is used for loans without a specified maturity or revocable loans.

The loan portfolio undergoes testing for impairment at the close of each reporting period. Impaired positions include bad debts, positions unlikely to be repaid and loans past due, 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 collective 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 these operations. Therefore, 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 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, the receivables are derecognized when no form of control over the instrument has been retained. Conversely, if the Bank retains even a portion of control, the receivable continues to be recognized to the extent of the continuing involvement, measured by exposure to changes in the value of the assigned receivables and to changes in the related cash flows.

The assigned receivables 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.

## 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 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.

Associated companies, i.e. entities under significant influence, comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group 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.

Equity interests in associated companies 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*

After initial recognition, the carrying amount of the interest is increased or decreased to recognized the percentage pertaining to the Group of the gains or losses that the investee realized after the acquisition date.

The percentage of the investee's results for the period in question pertaining to the Group is recognized in profit or loss. Dividends received from an investee company reduce the carrying amount of the equity investment. Adjustments to the carrying amount may also be necessary after changes occur in the Group's percentage interest in the associated company, deriving from changes in the investee's shareholders' equity that were not recognized in profit or loss. These changes include, by way of example, changes due to the valuation at market value of the investee's financial assets available for sale or to the redetermination of the value of plant, property and equipment. The portion of such changes pertaining to the Group is recognized outside the Group's profit or loss under item 140 "Valuation Reserves".

The valuation process uses the financial statements of the investees prepared, where material, on the basis of the IAS/IFRS used by the Group.

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.

If the reasons for the impairment loss cease to obtain following an event occurring after recognition of the impairment, the reversal is recognized in profit or loss.

#### *DERECOGNITION*

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

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

## **8 – Property and equipment**

#### *CLASSIFICATION*

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

#### *RECOGNITION*

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

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

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

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

#### *MEASUREMENT*

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

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

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

*DERECOGNITION*

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

*RECOGNITION OF INCOME COMPONENTS*

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

**9 – Intangible assets***CLASSIFICATION*

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

The costs of improving leased property with no independent function and use are conventionally classified among other assets, as provided for by Bank of Italy Circular no. 262. The related amortization, which is carried out over a period that does not exceed the length of the lease, is reported among other operating expenses.

*RECOGNITION*

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

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

*MEASUREMENT*

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

*DERECOGNITION*

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

*RECOGNITION OF INCOME COMPONENTS*

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset and,

for goodwill, at each reporting date, the asset is tested for impairment and any negative difference between its carrying amount and recoverable value is recognized in profit or loss. 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 held for sale

### *CLASSIFICATION*

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

### *RECOGNITION*

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

### *MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

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

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

### *DERECOGNITION*

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

## 11 – Current and deferred taxation

### *CLASSIFICATION*

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

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

Taking account of the adoption of the national consolidated taxation mechanism by the Group, the tax positions of

Iccrea Banca SpA and those of other Group companies are managed separately for administrative purposes.

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

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

#### *RECOGNITION AND MEASUREMENT*

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

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

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

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

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

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

#### *RECOGNITION OF INCOME COMPONENTS*

Income taxes are recognized through profit or loss, 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**

#### *RECOGNITION AND CLASSIFICATION*

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

estimated.

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

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

#### *MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS*

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

#### *DERECOGNITION*

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

### **13 – Debt and securities issued**

#### *CLASSIFICATION*

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

Debt also includes payables recognized by the lessee in respect of finance lease transactions.

Financial liabilities in respect of transferors for non-recourse purchases of receivables in factoring transactions are also recognized under debt.

#### *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, 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.

### RECOGNITION OF INCOME COMPONENTS

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.

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

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



## 17 – Other information

### *BUSINESS COMBINATIONS*

A business combination is the merger of separate entities or business operations into a single entity that is required to prepare financial statements.

A business combination may involve a parent company (purchaser) acquiring an interest in a subsidiary (purchased company). A business combination may also involve the acquisition of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions of assets).

Based on the provisions of IFRS 3, business combinations must be accounted for using the acquisition method, which involves the following steps:

- identification of the acquirer;
- determination of the cost of the business combination;
- allocation, as at the acquisition date, of the cost of the business combination to the assets acquired and the liabilities and contingent liabilities assumed.

In particular, the cost of a business combination is determined as the sum of the fair value as at the date of the transfer of the transferred assets, the liabilities incurred or assumed, and the equity instruments issued, in exchange for control of the acquiree, plus any other cost directly attributable to the business combination.

The acquisition date is the date in which control over the acquiree is effectively obtained. When the acquisition takes place in a single transaction, the date of the transaction generally coincides with the acquisition date.

When the business combination occurs through more than one transaction:

- the cost of the combination is the total cost of all the individual transactions;
- the exchange date is the date of each transaction (that is, the date on which each investment is recognized in the acquirer's accounts), while the acquisition date is that on which control over the acquiree is obtained.

The cost of a business combination is allocated by recognizing the identifiable assets, liabilities and contingent liabilities at fair value at the acquisition date.

The identifiable assets, liabilities identifiable contingent liabilities are recognized separately as at the acquisition date only if, at that date, they satisfy the following criteria:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer and it is possible to measure its fair value reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and it is possible to measure their fair value reliably;
- in the case of an intangible asset or contingent liability, it must be possible to measure the fair value reliably.

Any positive difference between the cost of the business combination and the acquirer's equity interest at the net fair value of the identifiable assets, liabilities and contingent liabilities shall be recognized as goodwill.

After initial recognition, the goodwill acquired in a business combination is measured at cost and undergoes impairment testing at least once a year.

In the case of a negative difference, a new measurement is carried out. If confirmed, this negative difference shall immediately be recognized as revenue in profit or loss.

*TREASURY SHARES*

Any treasury shares held are deducted from shareholders' equity. Similarly, the original cost of the shares and any gains or losses from their subsequent sale are recognized as changes in shareholders' equity.

*ACCRUALS AND DEFERRALS*

Accruals and deferrals reporting costs and revenues accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

*EXPENDITURE FOR LEASEHOLD IMPROVEMENTS*

Expenses for refurbishing buildings belonging to third parties are capitalized in consideration of the fact that for the duration of the lease contract the company using the premises has control over the assets and can obtain future economic benefits from them. Such costs, classified under "Other assets" in accordance with Bank of Italy instructions, are amortized over a period no greater than the term of the lease.

*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.

*FINANCE LEASES*

Lease agreements qualify as finance leases if they transfer substantially all the risks and rewards of ownership of the leased asset.

Ownership of the assets is not necessarily transferred to the lessee at the conclusion of the leasing contract.

The essential substantive and financial characteristic of these contracts is that the lessee acquires the economic benefits associated with the use of the leased asset for the majority of its economic life, in exchange for paying a sum that approximates the fair value of the asset and its associated finance costs. Hence, it is recognized in the financial statements of the lessor as follows:

- among assets, the value of the receivable disbursed, net of the principal of the leasing instalments accrued and paid by the lessee;

- in profit and loss, interest income.

#### *FACTORING*

Receivables acquired as part of factoring activities are recognized and carried in the accounts in the amount of sums disbursed to the assignor as an advance for the payment for the portfolio transferred with recourse. Receivables acquired without recourse are recognized as such after it is ascertained there are no contractual clauses that would vitiate the substantive transfer of all risks and rewards.

#### *REPURCHASE AGREEMENTS*

Securities received as part of a transaction which contractually requires subsequent resale and securities transferred as part of a transaction which contractually requires repurchase are not recognized and/or derecognized. Accordingly, in the case of securities acquired with a resale agreement, the amount paid is recognized as an amount due from customers or banks or as a financial asset held for trading. In the case of securities transferred with a repurchase agreement, the liability is recognized as an amount due to banks or customers, or as a financial liability held for trading. Revenues from these investments, consisting of the accrued interest on the securities and the spread between the spot price and forward price of the securities, are recognized as interest in profit or loss on an accruals basis.

The two types of operation are offset if and only if they are carried out with the same counterparty and if such netting is provided for in the contract.

#### *GUARANTEES ISSUED AND SIMILAR CREDIT DERIVATIVES*

Guarantees issued are initially recognized at fair value, which normally corresponds to the amount received at the time the guarantee was issued.

Guarantees issued and similar credit derivatives pursuant to IAS 39 (i.e. contracts in which it is stated that the issuer shall make specified payments in order to indemnify the insured party for an effective loss incurred for default by a specified debtor of the amount due at maturity of a debt instrument) are recognized under item 100 "Other liabilities".

After initial recognition, guarantees issued are recognized at the higher of the amount initially recognized net of any amortization and the estimate of the amount required to settle such obligations.

The effects of the valuation, which are correlated with any impairment of the underlying asset, are recognized under item 130.d of the income statement "Net losses/recoveries on impairment of other financial transactions" in profit or loss.

## INCOME STATEMENT

### 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.

### Contributions to the National Resolution Fund

Legislative Decrees 180 and 181 of November 16, 2015 transposed Directive 2014/59/EU (the Banking Resolution and Recovery Directive, "BRRD") into Italian law. The directive establishes a framework for the recovery and resolution of crises at credit institutions and investment firms and provides for the establishment of resolution funds.

In 2017 the banks of the Iccrea Banking Group were required to pay ordinary contributions to the National Resolution Fund as part of their participation in the system.

These amounts were recognized under item 150 b) "Other administrative expenses" as specified in the Bank of Italy notice of January 19, 2016.

### Determination of fair value

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.

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 the comparable approach or model valuation approach for other financial instruments. For listed instruments, 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.

In the case of instruments quoted on an active market, the 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). Nevertheless, in certain special cases it is possible to measure the instruments at the mid-market price. 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: unadjusted prices on an active market for the assets and liabilities involved. In this case the fair value of the financial instruments is exactly equal to the quoted price;
- Level 2: inputs other than the above quoted prices that are observable directly (prices) or indirectly (derived from prices) on the market. Fair value is determined using valuation techniques that provide for: a) the use of market values indirectly linked to the instrument being valued, drawn from instruments with similar risk characteristics (comparable approach); and b) valuation models that use observable inputs;
- Level 3: inputs that are not based on observable data. Fair value is determined on the basis of valuation models that use significant unobservable inputs in the calculation.

The choice between these methods is not optional, as they must be applied in accordance with the fair value hierarchy: where a quoted price on an active market is available, no other valuation technique may be used. In addition, 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, financial assets and liabilities are measured with valuation techniques using the directly observable prices of similar instruments (comparable approach – Level 2) or, in the absence of such inputs, fair value is calculated on the basis of valuation techniques that are more discretionary in nature (mark-to-model approach – Level 2 and 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. Nevertheless, in certain special cases, such as 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 for which observable market inputs are not available and for which market activity is limited or absent, 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 Group 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. IFRS 13 requires 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.

Additional information on the modeling used by the Group 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 ASSETS*

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 AMORTIZED COST*

The amortized cost of a financial asset or liability is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or the next repricing date. In calculating the present value, the effective interest rate is applied to the future cash receipts or payments over the entire life of the financial asset or liability or to a shorter period in the presence of certain conditions (for example, a change in market rates).

Subsequent to initial recognition, amortized cost makes it possible to allocate income and expense on the instrument over its entire expected life through the amortization process. The determination of amortized cost differs depending on whether the financial assets/liabilities being measured are fixed or floating rate instruments and, in the latter case, on whether the variability of the rate is known or not a priori. For fixed-rate instruments or instruments whose rate is fixed over specified time periods, future cash flows are quantified on the basis of the known interest rate (single or variable) over the life of the instrument. For floating-rate financial assets/liabilities for which the variability of the interest rate is not known a priori (e.g. because it is linked to an index), cash flows are calculated on the basis of the last known rate. At each repricing date, the amortization schedule and the effective interest rate are recalculated for the entire useful life of the instrument, i.e. until the maturity date.

The adjustment is recognized as an expense or income through profit or loss.

Measurement at amortized cost is used for loans, financial asset held to maturity and available for sale and for debt and securities issued.

Financial assets and liabilities traded on market terms and conditions are initially measured at fair value, which is normally equal to the amount disbursed or paid including, for instruments measured at amortized cost, directly attributable transaction costs, fees and commissions.

Transaction costs include internal or external marginal costs and revenues attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. Such commissions, which must be directly attributable to the individual financial asset or liability, modify the original effective yield. Accordingly, the effective interest rate associated with the transaction differs from the contractual interest rate. Transaction costs do not include costs/revenues regarding more than one transaction and components related to events which may occur during the life of the financial instrument but which are not certain at the time of the initial agreement, such as, for example: commissions for retrocession, for non-use or for early repayment. Furthermore, the calculation of

amortized cost does not include costs that would be incurred independently of the transaction (e.g. administrative costs, office supplies or communication expenses), costs that, while directly attributable to the transaction, are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as fees and commissions for services collected in respect of structured finance activities which would in any case have been received independently of the subsequent financing of the transaction (e.g. facility and arrangement fees) and, finally, intercompany costs and revenues.

With specific reference to loans and receivables, costs considered directly attributable to the financial instrument include fees paid to distribution networks, fees paid for advisory/assistance services for the origination and/or participation in syndicated loans and up-front commissions in respect of loans granted at rates exceeding market rates. Revenues considered in the calculation of amortized cost include up-front commissions in respect of loans granted at rates below market rates, revenues from participation in syndicated loans and brokerage fees received.

As regards securities not classified among assets held for trading, fees for contracts with brokers operating on Italian equity markets, and fees paid to intermediaries operating on foreign equity and bond markets defined on the basis of commission tables, are considered transaction costs. Stamp duties are not included in the amortized cost calculation because they are insignificant.

For securities issued, the calculation of amortized cost considers placement commissions on bond issues paid to third parties, amounts paid to exchanges and fees paid to audit firms for the activities performed for each single issue. The calculation of amortized cost does not consider commissions paid to rating agencies, legal and advisory/audit expenses for the annual update of prospectuses, the costs for the use of indices and commissions which originate during the life of the bond issue.

Amortized cost is also applied in measuring impairment losses on the financial instruments listed above as well as for the recognition of instruments issued or purchased at an amount other than fair value. Instead of using the amount received or paid, the latter are measured at fair value by discounting expected future cash flows at a rate equal to the effective interest rate of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in profit or loss of financial expense or income; subsequent to initial recognition, these are measured at amortized cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured assets and liabilities which are not recognized at fair value through profit or loss for which the embedded derivative has been separated from the financial instrument are measured at amortized cost.

Amortized cost is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recognized through profit or loss. However, the financial instrument is again measured at amortized cost when the hedge terminates. From that moment, fair value changes recognized previously are amortized, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged portion until the natural expiry of the hedge. Furthermore, as already mentioned in the section on measurement criteria for loans and debts and securities issued, measurement at amortized cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a specified maturity or which are revocable.

## 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 note.

#### *EQUITY INVESTMENTS*

At each reporting date the equity investments in associates undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable.

The identification of any impairment involves the verification of the presence of evidence of possible impairment and the determination of any writedown. Impairment indicators are essentially divided into two categories:

qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency; and quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or a market capitalization lower than the company's book equity for more than 24 months, for securities listed quoted on active markets, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income.

The presence of evidence of impairment results in the recognition of a writedown to the extent that the recoverable value is lower than the carrying amount.

The recoverable value is the greater of fair value less costs to sell and the value in use.

For an illustration of the valuation techniques used to determine fair value, please see the relevant section above.

Value in use is the present value of expected future cash flows from the asset. It reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the risk premium on the asset and other factors that could affect the assessment by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

#### *OTHER NON-FINANCIAL ASSETS*

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

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

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

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

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

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

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

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

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

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

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

### Business combinations

The subject of business combinations is addressed in IFRS 3.

The transfer of control of a business (or a group of integrated activities and assets, conducted or managed individually) constitutes a business combination.

Control is the power to direct the financial and operating policies of an entity or business activity so as to obtain benefits from its activities. It is assumed that one entity has obtained control of another entity when it acquires more than half of the voting rights of that other entity, unless it can be demonstrated that such ownership does not constitute control. Even when one of the entities does not acquire more than half of the voting rights of the other entity, it is possible that the first entity has obtained control over the other if, following the business combination, it acquires:

- the power over more than half of the voting rights of the other entity by virtue of an agreement with other investors; or
- the power to direct the operating and financial policies of the other entity under a statute or an agreement; or
- the power to appoint or replace the majority of the members of the board of directors or equivalent governing body of the other entity; or
- the power to cast the majority of the votes during meetings of the board of director or equivalent governing body of the other entity.

IFRS 3 requires that an acquirer be identified for all business combinations. The acquirer is the party obtaining control over another entity or group of assets. Should it not be possible to identify a controlling entity, in accordance with the above definition of control, such as, for example, in the case of transactions exchanging equity investments, the acquirer must be identified using other factors, namely: the entity whose fair value is significantly greater, the entity that pays a cash price, or the entity that issues the new shares.

The acquisition and, therefore, the initial consolidation of the entity acquired, must be recognized on the date on which the acquirer obtains effective control over the business or assets acquired. When the operation occurs in a single transaction, the date of the transfer generally coincides with the date of acquisition. However, the existence of any agreements between the parties that may involve a transfer of control prior to the actual date of exchange must always be verified.

The price paid in a business combination is determined as the sum of the fair value, as of the transfer date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in the change of control.

In transactions involving a cash payment (or when payment is envisaged by means of cash-equivalent financial instruments), the price is as agreed, discounting if necessary where payment will be made in instalments over a

period greater than the short term. Should payment be made using a non-cash instrument, thus through the issue of an instrument representing equity, the price is equal to the fair value of the means of payment, net of costs directly assigned to the equity-issuing transactions. For the methods of determining the fair value of financial instruments, please refer to the specific section of these notes, noting that, where shares are listed on active markets, the fair value is represented by the stock exchange price on the date of acquisition or, if this is not available, the last quotation available.

The price of the business combination includes, as of the date of acquisition, any adjustments contingent on future events, if envisaged by agreements and only when such adjustments are likely, can be determined in a reliable manner and realized within twelve months of the date on which control is acquired. Indemnities for impairment of assets used are not considered because they are already considered in either the fair value of the equity instruments or as a reduction of the premium or increase of the discount on the initial issue in the case of an issue of debt instruments.

The costs related to the acquisition are the charges that the acquirer incurs in order to carry out the business combination. By way of example, these include professional fees paid to auditors, experts, legal consultants, costs for expert opinions and auditing the accounts, preparation of disclosures required by regulations and consulting costs incurred in order to identify potential targets to be acquired, if it is contractually established that payment shall only be made in the event of a successful merger, as well as the costs for registration and issue of debt securities or equities

The acquirer must recognize the costs related to the acquisition as expenses in the periods in which these costs are incurred and the services received, except for the costs of issuing equity or debt securities, which must be recognized in accordance with the provisions of IAS 32 and IAS 39.

Business combinations are recognized in accordance with the “acquisition method” on the basis of which the identifiable assets acquired (including any intangible assets previously not recognized by the acquired business) and liabilities assumed (including contingent liabilities) are recognized at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree may be recognized at fair value (with consequent increase of the price paid) or proportionally to the non-controlling share of the identifiable net assets of the acquiree. The amount by which the price paid, thus determined, exceeds the fair value of the identifiable assets and liabilities is recognized as goodwill and allocated to the Cash Generating Units identified within the Group. If the price paid is lower than the fair value, the difference is recognized in profit or loss.

Identification of the fair value of the assets, liabilities and contingent liabilities of the acquired entity should take place on a provisional basis by the end of the year in which the business combination is performed. It must be completed within twelve months of acquisition.

If control is obtained through subsequent acquisitions, the acquirer must recalculate the equity interest it held previously in the company acquired at the respective fair value on the acquisition date, and recognize any difference compared with the previous carrying value in profit or loss. At the time of acquisition of control, total goodwill is therefore recalculated on the basis of the fair value on the acquisition date of the identifiable assets and liabilities of the company acquired.

Further equity interests in companies already controlled are recognized in accordance with the “economic entity theory”, as provided for under IFRS 10, according to which the consolidated financial statements represent all available resources of the business, understood as an entity that is financially independent of the person controlling it. Therefore, considering the group as a whole, the differences between acquisition costs and the carrying amount of the non-controlling interest acquired are recognized in the Group’s shareholders’ equity. Analogously, sales of non-controlling interests without loss of control do not generate gains/losses in profit or loss, but rather changes in the Group’s shareholders’ equity.

Operations launched with the aim of gaining control over one or more entities that do not constitute a business unit, or transitory control, are not classed as business combinations. The same applies if the business combination is carried out for the purpose of reorganization, and therefore between two or more companies or business units previously part of the Group, and does not entail any change in the control structure regardless of the percentage of third party rights before and after the operation (so-called common-control transactions). These transactions are considered to be without economic substance. As such, where there are no specific indications provided by the IASs/IFRSs and in compliance with the assumptions of IAS 8 that require that – where there is no specific standard – the company must use its own judgement in applying an accounting policy requiring material

disclosure that is reliable, prudent and reflects the economic substance of the operation, these are recognized safeguarding the continuity of values of the acquiree in the acquirer's financial statements.

Mergers fall under the scope of business combinations, representing the most complete form of aggregation, insofar as they entail the legal and economic unification of the parties concerned.

Business combinations, whether mergers, i.e. with the formation of a new legal entity, or acquisitions, with one company being taken over by an existing company, are treated in accordance with the criteria described above. More specifically:

- if the transaction involves the transfer of control over a company, it is treated as a business combination in accordance with IFRS 3;
- if the transaction does not entail the transfer of control, it is recognized in continuity with the values recognized by the acquiree.

### Criteria for preparing segment reporting

For the purposes of the operating segment reporting required by IFRS 8, and taking into account the organizational/management and geographical structure of the Parent Company and its subsidiaries, the main segment breakdown is by business segment, while no division by geographical area has been made as all Group activities are carried out in Italy.

The Group's operating segments are as follows:

- *Institutional*: activities performed with institutional counterparts (mutual banks, other banks, and public institutions), in the context of payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- *Corporate*: activities mainly aimed at loans to small and mid-sized companies that are customers of the mutual banks;
- *Retail*: mainly asset management activities on an individual, collective, and insurance basis and consumer credit products aimed at retail customers;
- *Corporate Center*: for internal Group activities of an administrative and support nature, as well as all intercompany transactions.

Allocation of income statement and balance sheet components to the individual segments is carried out on the basis of the segment to which they belong in accordance with the customer segmentation management model adopted.

The aim of the revenue and cost allocation rules is to attribute all the profit or loss components that pertain to a business structure to that structure, either directly or using appropriate pass-through criteria, reducing the unattributed portion charged to the Corporate Center to a minimum.

Specific contractual agreements between Group entities regulate the application of transfer prices for other income components relating to transactions that call for the division of gains/losses between service units/product producers and customers/public entities. Direct costs, and for the relevant portion, the operating costs of central bodies other than those of the holding company units, have been attributed to each segment. Hence, for services carried out by central bodies for operational business units, the pass through was carried out on the basis of the services effectively rendered, leaving costs relating to management and control activities allocated to the Corporate Center. The business units' profits are reported net of taxes.

Operating segments are presented gross of transactions between different segments.

### 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**

### **A.3.1 Reclassified financial assets: carrying amount, fair value and impact on comprehensive income**

During 2016 the financial assets that had been reclassified using the option provided for under Regulation (EC) no. 1004/2008 were sold.

### **A.3.2 Reclassified financial assets: impact on comprehensive income before transfer**

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

### **A.3.3 Transfers of financial assets held for trading**

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

### **A.3.4 Effective interest rate and expected cash flows of reclassified assets**

During 2016 the financial assets that had been reclassified using the option provided for under Regulation (EC) no. 1004/2008 were sold.



## A.4 – FAIR VALUE DISCLOSURE

### Qualitative disclosures

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

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

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

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

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

### Mark to Market approach

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

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

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

## Comparable approach

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

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

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

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

## Mark to Model approach

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

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

The Group 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.

With this in mind, a new framework for valuing derivatives was adopted, the so-called OIS Discounting approach, which basically uses:

1. a yield curve based on the values indicated by the OIS-Eonia curve, from which we derive (through bootstrapping) the yield curve of the zero-coupon rates to be used to discount the future cash flows of the derivatives;
2. a differentiated set of yield curves based upon the values indicated by the various Libor curves (e.g. 1-month Euribor, 3-month Euribor, six-month Euribor, etc.), from which we derive (through individual bootstrapping procedures) the respective yield curves of the forward rates: these rates are used to value the future cash flows of the derivatives. Clearly, the individual bootstrapping procedures must be calibrated so as to be consistent with the zero-coupon yield curve derived from the procedure indicated in point 1 so as to reproduce a result consistent with the values in observable markets.

The reason for this new approach to valuing derivatives lies in the financial crisis that began in the second half of 2007, which led – among various consequences – to a review of the methodologies for pricing derivatives. Indeed, the classic approach – which assumes no arbitrage (which developed in the 1970s) and therefore the existence of a single, risk-free yield curve for lending and/or funding – has become inadequate as a result of the emergence of significant counterparty risk, necessitating the employment of mitigation techniques. More

specifically, the use of collateral-backed derivatives – to mitigate that risk exposure – has become best practice in the market and this technique means that the valuation of derivatives much take account of the remuneration procedures for the collateral itself.

The new valuation framework incorporates the use of collateral in pricing derivatives.

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

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

In particular, the Group 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).

A simplified building-block approach is used to estimate the CVA/DVA, which is obtained as the product of the estimated exposure at default (EAD), weighted for expected loss (LGD), and the probability of default occurring (PD).

The EAD is based on the mark-to-market approach, reduced by the value of any guarantees at the date the valuation is made without any add-on. The weighted average life of the portfolio is used for each counterparty to determine the probability of default (PD). No estimate of the wrong-way risk is made.

In order to estimate the PD and LGD for financial counterparties, we have adopted an implied market approach, namely they are derived from the listed prices for credit sensitive instruments, such as single-name or sector credit curves.

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

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

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

#### A.4.2 Valuation processes and sensitivity

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

The Group 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 or listed on non-active markets (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;
- bad debts and positions unlikely to be repaid 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 Group'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

	31/12/2017		
	Level 1	Level 2	Level 3
1. Financial assets held for trading	11,727	280,881	4,535
2. Financial assets measured at fair value	-	15,630	-
3. Financial assets available for sale	2,876,331	163,911	78,242
4. Hedging derivatives	-	6,716	-
5. Property and equipment	17,072	481,558	-
6. Intangible assets	-	-	-
<b>Total</b>	<b>2,905,129</b>	<b>948,696</b>	<b>82,778</b>
1. Financial liabilities held for trading	50,659	305,791	-
2. Financial liabilities measured at fair value	492	-	-
3. Hedging derivatives	-	56,416	-
<b>Total</b>	<b>51,151</b>	<b>362,208</b>	<b>-</b>

As required under IFRS 13, we report that there were no transfers of financial instruments between Level 1 and Level 2 during the year.

**A.4.5.2 Change for the period in financial assets designated as at fair value on a recurring basis (Level 3)**

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
<b>1. Opening balance</b>	<b>2,211</b>	-	<b>45,425</b>	-	-	-
<b>2. Increases</b>	<b>8,479</b>	-	<b>38,577</b>	-	-	-
2.1. Purchases	6,178	-	35,713	-	-	-
2.2. Profits recognized in:						
2.2.1. Income statement	16	-	2,864	-	-	-
- of which: capital gains	1	-	2,864	-	-	-
2.2.2. Shareholders' equity	-	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	2,284	-	-	-	-	-
<b>3. Decreases</b>	<b>6,155</b>	-	<b>24,284</b>	-	-	-
3.1. Sales	6,155	-	-	-	-	-
3.2. Redemptions	-	-	2,150	-	-	-
3.3. Losses recognized in:						
3.3.1. Income statement	-	-	22,134	-	-	-
- of which: capital losses	-	-	22,134	-	-	-
3.3.2. Shareholders' equity	-	-	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
<b>4. Closing balance</b>	<b>4,535</b>	-	<b>59,718</b>	-	-	-

Financial assets available for sale classified under Level 3 at December 31, 2017 do not include €18.5 million in equity securities carried at cost (€23.1 million at December 31, 2016). The comparative figure is reported on a consistent basis.

**A.4.5.3 Change for the period in financial liabilities designated as at fair value on a recurring basis (Level 3)**

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

#### A.4.5.4 Financial assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value input level

	31/12/17				31/12/16			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	4,738,609	4,750,827	-	-
2. Due from banks	17,875,759	-	5,236	17,768,175	21,175,516	-	10,231	21,119,774
3. Loans to customers	14,856,879	-	51,051	13,569,717	13,674,256	-	35,894	14,807,138
4. Investment property	14,219	-	-	5,664	12,158	-	-	12,158
5. Non-current assets and disposal groups held for sale	220,286	-	-	-	-	-	-	-
<b>Total</b>	<b>32,967,143</b>	<b>-</b>	<b>56,287</b>	<b>31,343,557</b>	<b>39,600,540</b>	<b>4,750,827</b>	<b>46,125</b>	<b>35,938,382</b>
1. Due to banks	19,235,105	-	473,090	18,760,435	12,722,738	1,503,133	3,725,410	12,632,813
2. Due to customers	10,068,860	-	-	10,007,230	26,852,653	-	3,138	26,811,398
3. Securities issued	5,688,867	5,317,114	300,958	113,334	4,466,854	3,595,608	789,776	243,533
4. Liabilities associated with assets held for sale	282,047	176	-	-	-	-	-	-
<b>Total</b>	<b>35,274,879</b>	<b>5,317,290</b>	<b>774,048</b>	<b>28,880,999</b>	<b>44,042,244</b>	<b>5,098,740</b>	<b>4,249,887</b>	<b>39,849,824</b>

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

#### A.5 – DISCLOSURE ON “DAY ONE PROFIT/LOSS”

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph 28.

More specifically, the net negative effect of about €302 thousand, recognized in full through profit or loss, was associated with the cash flow hedging of the BTP Italia. 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  
consolidated balance sheet



## ASSETS

### SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

#### 1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	31/12/2017	31/12/2016
a) Cash	110,638	113,308
b) Demand deposits with central banks	2	2
<b>Total</b>	<b>110,640</b>	<b>113,310</b>

The sub-item "Cash" includes foreign currency in the amount of €17.696 million.

### SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

#### 2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. On-balance-sheet assets</b>						
<b>1. Debt securities</b>	<b>10,909</b>	<b>620</b>	<b>100</b>	<b>86,529</b>	<b>4</b>	<b>79</b>
1.1 structured securities	201	-	-	2,284	-	79
1.2 other debt securities	10,708	620	100	84,244	4	-
<b>2. Equity securities</b>	<b>187</b>	<b>68</b>	<b>177</b>	<b>170</b>	<b>78</b>	<b>159</b>
<b>3. Units in collective investment undertakings</b>	<b>539</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
<b>Total A</b>	<b>11,635</b>	<b>687</b>	<b>277</b>	<b>86,798</b>	<b>82</b>	<b>238</b>
<b>B. Derivatives</b>						
<b>1. Financial derivatives</b>	<b>91</b>	<b>280,194</b>	<b>4,258</b>	<b>145</b>	<b>302,045</b>	<b>1,974</b>
1.1 trading	91	279,152	4,258	145	299,893	1,974
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	1,042	-	-	2,152	-
<b>2. Credit derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total B</b>	<b>91</b>	<b>280,194</b>	<b>4,258</b>	<b>145</b>	<b>302,045</b>	<b>1,974</b>
<b>Total (A+B)</b>	<b>11,727</b>	<b>280,881</b>	<b>4,535</b>	<b>86,943</b>	<b>302,127</b>	<b>2,212</b>

Sub-item B.1.1, as with financial liabilities, reports the market value of derivatives originated by the Group's operations for the purposes of the sale of derivatives to banks and customers.

The amount under B.1.3 (other) regards embedded floor options in loans to customers.

## 2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>A. On-balance-sheet assets</b>		
<b>1. Debt securities</b>	<b>11,629</b>	<b>86,611</b>
a) Governments and central banks	5,545	83,967
b) Other government agencies	2	-
c) Banks	4,008	1,669
d) Other issuers	2,073	975
<b>2. Equity securities</b>	<b>432</b>	<b>407</b>
a) Banks	-	-
b) Other issuers:	432	407
- insurance undertakings	-	-
- financial companies	71	71
- non-financial companies	361	336
- other	-	-
<b>3. Units in collective investment undertakings</b>	<b>539</b>	<b>100</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>Total A</b>	<b>12,600</b>	<b>87,118</b>
<b>B. Derivatives</b>		
a) Banks		
- fair Value	241,522	236,963
b) Customers		
- fair Value	43,021	67,200
<b>Total B</b>	<b>284,543</b>	<b>304,163</b>
<b>Total (A+B)</b>	<b>297,143</b>	<b>391,281</b>

Debt securities consist mainly of listed government and bank securities.

“Units in collective investment undertakings” at the reporting date consisted of open-end equity funds.

## SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE - ITEM 30

## 3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>		<b>15,630</b>		-	<b>14,559</b>	-
1.1 structured securities		15,630			14,559	
1.2 other debt securities		-				
<b>2. Equity securities</b>		-		-		-
<b>3. Units in collective investment undertakings</b>		-		-		-
<b>4. Loans</b>		-		-		-
4.1 structured		-				
4.2 other		-				
<b>Total</b>		<b>15,630</b>		-	<b>14,559</b>	-
<b>Cost</b>		<b>(14,559)</b>		-	<b>14,978</b>	-

The Group exercised the fair value option for a credit-linked note - UBS London Branch-Anleihe (XS1170644840) in order to avoid unbundling the embedded derivative.

## 3.2 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>1. Debt securities</b>	<b>15,630</b>	<b>14,559</b>
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	15,630	14,559
d) Other issuers	-	-
<b>2. Equity securities</b>	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance undertakings	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. Units in collective investment undertakings</b>	-	-
<b>4. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>Total</b>	<b>15,630</b>	<b>14,559</b>

## SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

### 4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	<b>2,862,238</b>	<b>156,904</b>	<b>-</b>	<b>4,855,871</b>	<b>295,643</b>	<b>-</b>
1.1 structured securities	-	-	-	15,839	72	-
1.2 other debt securities	2,862,238	156,904	-	4,840,032	295,571	-
<b>2. Equity securities</b>	<b>1,897</b>	<b>10</b>	<b>69,766</b>	<b>17,437</b>	<b>10</b>	<b>41,265</b>
2.1 at fair value	1,897	-	51,242	17,437	-	18,140
2.2 carried at cost	-	10	18,524	-	10	23,125
<b>3. Units in collective investment undertakings</b>	<b>12,196</b>	<b>6,997</b>	<b>8,476</b>	<b>7,207</b>	<b>2,560</b>	<b>27,286</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>2,876,331</b>	<b>163,911</b>	<b>78,242</b>	<b>4,880,515</b>	<b>298,213</b>	<b>68,551</b>

The portfolio of financial assets available for sale is composed primarily of government securities and non-controlling shareholdings.

The increase in “Equity securities – at fair value” reflects the subscription of AT1 instruments issued by mutual banks as part of targeted capital strengthening initiatives in the amount of €31 million.

The decrease in “Units in collective investment undertakings” reflects the combined impact of the impairment of the units of the investment fund Atlante in the amount of €22.5 million and new subscriptions of open-end bond funds in the amount of €8 million (Aberdeen Global Select Emerging Markets and M&G Emerging Markets).

### Impairment testing of financial assets available for sale

As required under the IFRSs, financial assets available for sale undergo impairment testing to assess whether there is objective evidence that the carrying value of such assets is not fully recoverable. The detection of any impairment involves the verification of the presence of impairment indicators and the determination of any writedown.

Impairment indicators are essentially divided into two categories: those deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equity instruments - external quantitative indicators deriving from the market values of the company.

In the first category, the following indicators are considered significant: the generation of losses or, in any case, a significant gap with respect to the targets budgeted for or set forth in the multi-annual plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating issued by a specialist agency. As regards the second category, a substantial or prolonged reduction in fair value below the initial recognition value is considered significant; more specifically, a reduction in fair value of more than 30% is considered substantial, and a continuous reduction for a period of more than 18 months is considered prolonged. If one of these thresholds is exceeded, impairment of the security is recognized. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

At December 31, 2017, the testing led to a writedown of the investment in BCC Sviluppo Territorio FVG in the amount of €1.3 million.

## 4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>1. Debt securities</b>	<b>3,019,142</b>	<b>5,151,513</b>
a) Governments and central banks	2,895,610	5,134,962
b) Other government agencies	-	-
c) Banks	33,757	8,405
d) Other issuers	89,774	8,146
<b>2. Equity securities</b>	<b>71,673</b>	<b>58,713</b>
a) Banks	42,412	10,920
b) Other issuers:	29,261	47,793
- insurance undertakings	3,523	14,189
- financial companies	19,079	23,508
- non-financial companies	6,660	10,096
- other	-	-
<b>3. Units in collective investment undertakings</b>	<b>27,669</b>	<b>37,053</b>
<b>4. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>Total</b>	<b>3,118,484</b>	<b>5,247,279</b>

## 4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>Financial assets with specific fair value hedge:</b>	<b>656,403</b>	<b>944,099</b>
1. interest rate risk	656,403	944,099
2. price risk	-	-
3. exchange rate risk	-	-
4. credit risk	-	-
5. multiple risks	-	-
<b>Financial assets with specific cash flow hedges:</b>	-	<b>33,646</b>
1. interest rate risk	-	33,646
2. exchange rate risk	-	-
3. other	-	-
<b>Total</b>	<b>656,403</b>	<b>977,745</b>

The amounts regard government securities: BTPs indexed to Italian inflation (BTP Italia) and euro-area inflation (BTP€i), hedged with asset swaps against interest rate risk (fair value hedging) or to stabilize cash flows (cash flow hedging).

## SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

### 5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

	31/12/2017				31/12/2016			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>1. Debt securities</b>	-	-	-	-	<b>4,738,609</b>	<b>4,750,951</b>	-	-
- structured	-	-	-	-	-	-	-	-
- other	-	-	-	-	4,738,609	4,750,951	-	-
<b>2. Loans</b>	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	<b>4,738,609</b>	<b>4,750,951</b>	-	-

Key

FV = Fair value

CA = Carrying amount

In order to reduce the exposure to sovereign risk, the HTM portfolio was sold: the transaction generated gains of €73.5 million, which were recognized in the income statement under item 100, letter c).

### 5.2 FINANCIAL ASSETS HELD TO MATURITY: DEBTOR/ISSUER

	31/12/2017	31/12/2016
<b>1. Debt securities</b>	-	<b>4,738,609</b>
a) Governments and central banks	-	4,738,609
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>Total</b>	-	<b>4,738,609</b>
<b>Total fair value</b>	-	<b>4,750,827</b>

### 5.3 FINANCIAL ASSETS HELD TO MATURITY: ASSETS HEDGED SPECIFICALLY

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



## SECTION 6 - DUE FROM BANKS - ITEM 60

## 6.1 DUE FROM BANKS: COMPOSITION BY TYPE

	CA 2017	31/12/2017			CA 2016	31/12/2016		
		FV				FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Claims on central banks</b>	<b>976,297</b>	-	-	<b>976,180</b>	<b>152,719</b>	-	-	<b>152,700</b>
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Reserve requirement	976,297	X	X	X	152,719	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
<b>B. Due from banks</b>	<b>16,899,461</b>	-	<b>5,236</b>	<b>16,791,995</b>	<b>20,999,475</b>	-	<b>10,230</b>	<b>20,944,727</b>
1. Financing	16,593,136	-	5,236	16,482,111	20,702,892	-	10,230	20,642,142
1.1 Current accounts and demand deposits	680,190	X	X	X	591,011	X	X	X
1.2 Fixed-term deposits	93,347	X	X	X	103,243	X	X	X
1.3. Other financing	15,819,599	X	X	X	20,008,638	X	X	X
- Repurchase agreements	97,468	X	X	X	-	X	X	X
- Finance leases	16,387	X	X	X	17,268	X	X	X
- Other	15,705,743	X	X	X	19,991,370	X	X	X
2. Debts securities	306,325	-	-	309,885	296,583	-	-	302,585
2.1 Structured securities	33,024	X	X	X	35,090	X	X	X
2.2 Other debt securities	273,301	X	X	X	261,493	X	X	X
<b>Total</b>	<b>17,875,759</b>	-	<b>5,236</b>	<b>17,768,175</b>	<b>21,152,194</b>	-	<b>10,230</b>	<b>21,097,427</b>

Key:

FV = Fair value

CA = Carrying amount

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 sub-item "fixed-term deposits" includes deposits in foreign currency with a value of €78.3 million.

Amounts due from banks include "other financing - other" comprising:

- loans to the mutual banks connected with pool collateral operations, such as advances from the ECB secured with refinanceable securities, with a total value of €15.4 billion, of which €9 billion granted within the framework of the TLTRO against securities pledged as collateral by the mutual banks with a total fair value, net of the haircut, of €18.1 billion;
- cash collateral paid to bank counterparties to secure derivatives exposures supported by Credit Support Annexes (CSA) in the amount of €178.6 million;
- assignments of receivables by the mutual banks, counter-guaranteed by them, in the amount of €17.2 million.

The sub-item "Debt securities" includes:

- ordinary bonds issued by the mutual banks in the amount of €215 million;
- subordinated bonds issued by the mutual banks eligible for inclusion in own funds in the amount of €91 million (Lower Tier II).

## 6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Loans with specific fair value hedges</b>	<b>390,730</b>	<b>894,345</b>
a) interest rate risk	390,730	894,345
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans with specific cash flow hedges</b>	<b>-</b>	<b>-</b>
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
<b>Total</b>	<b>390,730</b>	<b>894,345</b>

The item consists of:

- fixed-rate treasury deposits with mutual banks hedged with overnight indexed swaps in the amount of €319 million;
- a step-up bond issued by Banca IMI S.p.A. (XS1520729614) hedged with a step-up swap in the amount of €71 million.

## 6.3 FINANCE LEASES

	31/12/2017					
	Explicit credit	Minimum payments			Gross investment	
		Principal	of which guaranteed residual value		Interest	of which unguaranteed residual value
Demand	-	100	106	58	164	-
Up to 3 months	-	358	214	134	492	-
From 3 months to 1 year	-	1,389	968	552	1,941	1
From 1 year to 5 years	-	6,817	5,401	2,351	9,168	56
More than 5 years	-	15,435	10,208	1,996	17,432	5,214
Unspecified maturity	56	-	-	-	-	-
<b>Gross total</b>	<b>56</b>	<b>24,106</b>	<b>16,898</b>	<b>5,091</b>	<b>29,198</b>	<b>5,270</b>
Writedowns	41	-	-	-	-	-
<b>Net total</b>	<b>16</b>	<b>24,106</b>	<b>16,898</b>	<b>5,091</b>	<b>29,198</b>	<b>5,270</b>

## SECTION 7 – LOANS TO CUSTOMERS – ITEM 70

## 7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2017						31/12/2016					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
<b>Loans</b>	<b>13,466,419</b>	<b>110,516</b>	<b>1,221,007</b>	-	<b>3,643</b>	<b>13,556,269</b>	<b>12,213,831</b>	<b>66,129</b>	<b>1,352,437</b>	<b>505</b>	<b>14,798,450</b>	
1. Current accounts	156,930	27,099	208,329	X	X	X	220,304	22,112	208,904	X	X	X
2. Repurchase agreements	3,116,755	-	-	X	X	X	921,560	-	-	X	X	X
3. Medium/long term loans	2,857,252	81,511	355,292	X	X	X	3,149,479	38,170	388,130	X	X	X
4. Credit cards, personal loans and loans repaid by automatic deductions from wage	914,494	-	11,943	X	X	X	907,983	44	12,945	X	X	X
5. Finance leases	4,457,433	-	567,568	X	X	X	4,440,468	-	659,653	X	X	X
6. Factoring	475,526	-	33,528	X	X	X	474,061	-	32,053	X	X	X
7. Other	1,488,027	1,906	44,348	X	X	X	2,099,976	5,803	50,752	X	X	X
<b>Debts securities</b>	<b>58,685</b>	<b>-</b>	<b>253</b>	-	<b>47,408</b>	<b>13,448</b>	<b>40,931</b>	<b>-</b>	<b>928</b>	<b>X</b>	<b>35,389</b>	<b>8,688</b>
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	58,685	-	253	X	X	X	40,931	-	928	X	X	X
<b>Total</b>	<b>13,525,103</b>	<b>110,516</b>	<b>1,221,260</b>	-	<b>51,051</b>	<b>13,569,717</b>	<b>12,254,762</b>	<b>66,129</b>	<b>1,353,365</b>	<b>X</b>	<b>35,894</b>	<b>14,807,138</b>

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

For the analysis of loan developments and the associated provisions, see the specific paragraph in the section on risk management (Section E).

The item "current accounts" mainly regards lending secured by mortgages for residential and commercial building.

The sub-items "Current accounts" and "Medium/long-term loans" – Impaired/Purchased include the bad debts acquired by the "Lucrezia Securitisation Srl" vehicle as part of initiatives to support distressed mutual banks with a total value of €108 million (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano), in respect of which Iccrea Banca undertook to subscribe all of the corresponding notes.

The item "finance leases" reports the change in fair value of €10.7 million (€14.7 million in 2016) of fixed-rate credit hedged against interest rate risk.

"Other" include:

- €252 million of cash collateral for Default Fund and margins paid to the Clearing & Guarantee Fund for transactions in secured funding;
- €586 million of loans on the interbank collateralized deposit market (NewMIC) operated by the Clearing & Guarantee Fund;
- €265 million for orders in respect of property and equipment leases for which principal repayment is subordinate to the start of the leases;
- €242 million in other lending (of which €112 million to the Mutual Bank Deposit Guarantee Fund);
- €60.5 million in a Poste Vita S.p.A. insurance policy.

Debt securities classified here include:

- a minibond (as regulated by Decree Law 83/2012 ratified with Law 134/2012) subscribed by the subsidiary Iccrea Bancalmpresa with a total value of €45.6 million;

- senior unrated notes issued by the “Lucrezia Securitisation Srl” vehicle for a total of €13.7 million as part of measures to resolve the crises at BCC Padovana ed Irpina (IT0005216392), BCC Crediveneto (IT0005240749) and BCC Teramano (IT0005316846).

## 7.2 LOANS TO CUSTOMERS: COMPOSITION BY DEBTOR/ISSUER

	31/12/2017			31/12/2016		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
<b>1. Debt securities:</b>	<b>58,685</b>	-	<b>253</b>	<b>40,931</b>	-	<b>928</b>
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	58,685	-	253	40,931	-	928
- non-financial companies	36,969	-	253	23,600	-	928
- financial companies	21,716	-	-	17,331	-	-
- insurance undertakings	-	-	-	-	-	-
- other	-	-	-	-	-	-
<b>2. Loans to:</b>	<b>13,466,419</b>	<b>110,516</b>	<b>1,221,007</b>	<b>12,213,831</b>	<b>66,129</b>	<b>1,352,437</b>
a) Governments	50	-	4	53	-	3
b) Other government agencies	146,097	-	503	149,442	-	1,414
c) Other issuers	13,320,272	110,516	1,220,501	12,064,336	66,129	1,351,020
- non-financial companies	7,395,393	1,906	1,140,085	7,516,752	49,802	1,260,555
- financial companies	4,293,043	-	5,051	2,745,337	184	7,416
- insurance undertakings	61,775	-	-	61,865	-	3
- other	1,570,061	108,609	75,364	1,740,382	16,143	83,046
<b>Total</b>	<b>13,525,103</b>	<b>110,516</b>	<b>1,221,260</b>	<b>12,254,762</b>	<b>66,129</b>	<b>1,353,365</b>

As part of the issue of financial instruments and, more specifically, savings securities for the southern economy (TREM) pursuant to Article 8, paragraph 4, of Decree Law 70/2011, please note that – partly for the purpose of monitoring by the Ministry for the Economy and Finance of the condition that increases in medium/long-term lending to the SMEs of southern Italy shall at least equal the funding raised through the issue of TREM – the total amount of loans with a term of more than 18 months disbursed by the Iccrea Banking Group from July 1, 2011 to December 31, 2017 to the small and medium enterprises based in the regions of southern Italy (Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia and Sicily) amounted to €706.61 million. A breakdown shows that these loans were disbursed in the amount of €694.78 million by Iccrea Bancalmpresa and €11.828 million by Banca Sviluppo.

### 7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Loans with specific fair value hedges</b>	<b>72,456</b>	<b>86,351</b>
a) interest rate risk	72,456	86,351
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans with specific cash flow hedges</b>	<b>-</b>	<b>-</b>
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
<b>Total</b>	<b>72,456</b>	<b>86,351</b>

The table reports the nominal value of fixed-rate loans for which the interest rate risk has been hedged.

### 7.4 FINANCE LEASES

	31/12/2017					
	Explicit credit	Principal	of which unguaranteed residual value	Interest	Gross investment	of which unguaranteed residual value
Demand	-	169,183	161,802	40,531	209,714	7,381
Up to 3 months	874	519,899	459,472	116,389	636,288	24,653
From 3 months to 1 year	2,094	1,984,995	1,738,488	425,660	2,410,655	150,844
From 1 year to 5 years	3,132	2,136,186	1,361,804	314,634	2,450,820	572,134
More than 5 years	648,910	375,817	-	4	375,822	-
Unspecified maturity	21,570	-	-	-	-	-
<b>Gross total</b>	<b>676,580</b>	<b>5,186,080</b>	<b>3,721,565</b>	<b>897,219</b>	<b>6,083,299</b>	<b>755,012</b>
Writedowns	285,092	283,680	-	-	-	-
<b>Net total</b>	<b>391,488</b>	<b>4,902,400</b>	<b>3,721,565</b>	<b>897,219</b>	<b>6,083,299</b>	<b>755,012</b>

The figures in the table include the value of assets awaiting the start of finance leases, which are not reported in the table of the breakdown by type (Table 7.1).

## SECTION 8 - HEDGING DERIVATIVES - ITEM 80

For more information on the objectives and strategies underpinning hedging operations, please see the disclosures in Part E – Risks and risk management policies.

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

	FV 31/12/2017			NV 31/12/2017	FV 31/12/2016			NV 31/12/2016
	L1	L2	L3		L1	L2	L3	
<b>A) Financial derivatives</b>	-	<b>6,716</b>	-	<b>646,703</b>	-	<b>17,773</b>	-	<b>3,237,153</b>
1) Fair value	-	5,363	-	613,350	-	10,344	-	3,147,029
2) Cash flows	-	1,353	-	33,353	-	7,429	-	90,124
3) Investments in foreign operations	-	-	-	-	-	-	-	-
<b>B) Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>6,716</b>	-	<b>646,703</b>	-	<b>17,773</b>	-	<b>3,237,153</b>

Key

FV = Fair value

NV = Notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The table reports financial derivatives (interest rate swaps and overnight indexed swaps) used to hedge the risk of changes in the fair value – caused by the volatility of interest rates – of financial instruments in “financial assets” and “financial liabilities”, as detailed in the following table.

## 8.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIO AND TYPE OF HEDGE (CARRYING AMOUNT)

	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	539	-	-	-	-	X	-	X	X
2. Loans	439	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	62	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>988</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	4,312	-	-	X	-	X	1,353	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
<b>Total liabilities</b>	<b>4,312</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,353</b>	<b>-</b>	<b>-</b>
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 amounts reported under point 1 "Financial assets available for sale" regard asset swaps hedging a fixed-rate BTP.

The item "Loans" regards overnight indexed swap (OIS) hedging on treasury deposits and asset swaps on a Banca IMI bond.

"Portfolio" regards the macro-hedging of a portfolio of collateralized loans.

The item "Financial liabilities" (specific fair value hedging of interest rate risk) includes the positive values of interest rate swaps (IRS) hedging 2 fixed-rate bonds issued by the Group.

The item "Financial liabilities" (specific cash flow hedging) includes cross currency interest rate swaps (CCIRS) hedging dollar-denominated bonds issued by the Group.

## 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

	31/12/2017	31/12/2016
<b>1. Positive adjustments</b>	<b>5</b>	<b>-</b>
1.1 of specific portfolios:	5	-
a) loans	5	-
b) financial assets available for sale	-	-
1.2 comprehensive	-	-
<b>2. Negative adjustments</b>	<b>-</b>	<b>348</b>
2.1 of specific portfolios:	-	348
a) loans	-	348
b) financial assets available for sale	-	-
2.2 comprehensive	-	-
<b>Total</b>	<b>5</b>	<b>348</b>

### 9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK

	31/12/2017	31/12/2016
1. Loans	434,000	3,028,456
2. Financial assets available for sale	-	-
3. Portfolio	-	-
<b>Total</b>	<b>434,000</b>	<b>3,028,456</b>

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



## SECTION 10 - EQUITY INVESTMENTS - ITEM 100

## 10.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
<b>A. Joint ventures</b>	-	-	-	-	-	-
<b>B. Companies subject to significant influence</b>						
1. BCC Vita S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49	49
2. BCC Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49	49
3. BCC Accademia	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	26	26
4. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	25	25
5. M-Facility S.r.l.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	37	37
6. Car Server S.p.A.	Reggio Emilia	Reggio Emilia	Significant influence	Iccrea BancaImpresa S.p.A.	19	19
7. Satispay	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	16	16

## 10.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
<b>A. Joint ventures</b>	-	-	-
<b>B. Companies subject to significant influence</b>			
1. BCC Vita S.p.A.	86,083	109,800	3,889
2. BCC Assicurazioni S.p.A.	6,099	6,099	-
3. BCC Accademia S.p.A.	132	132	-
4. Hi-Mtf S.p.A.	1,561	1,561	-
5. M-Facility S.r.l.	131	131	-
6. Car Server S.p.A.	13,464	13,464	1,467
7. Satispay S.p.A.	4,206	4,206	-
<b>Total</b>	<b>111,676</b>	<b>135,393</b>	<b>5,356</b>

The dividends were received from investments consolidated on a full line-by-line basis and have therefore been eliminated in consolidation.

### 10.3 SIGNIFICANT EQUITY INVESTMENTS: ACCOUNTING DATA

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net adjustments of property and equipment and intangible assets	Profit (loss) before tax on continuing operations	Profit (loss) after tax on continuing operations	Profit (loss) after tax of disposal groups held for sale	Net profit (loss) for the period (1)	Other comprehensive income net of taxes (2)	Comprehensive income (3)=(1) + (2)
A. Joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Companies subject to significant influence														
1. BCC Vita S.p.A.	X	2,924,752	116,642	5,354	2,863,319	419,641	X	X	14,741	9,983	-	9,983	(85)	9,898
2. BCC Assicurazioni S.p.A.	X	39,613	43,413	9,572	62,426	21,518	X	X	(1,285)	(960)	-	(960)	(98)	(1,058)
3. BCC Accademia S.p.A.	X	1,074	1,376	-	2,089	2,506	X	X	100	49	-	49	-	49
4. Hi-Mtf S.p.A.	X	1,520	5,181	-	556	2,545	X	X	144	74	-	74	4	78
5. M-Facility S.r.l.	X	-	1,023	400	89	-	X	X	(215)	(215)	-	(215)	-	(215)
6. Car Server S.p.A.*	X	-	470,018	-	393,487	251,074	X	X	10,068	8,557	-	8,557	-	-
7. Satispay S.p.A.	X	13,273	8,999	-	1,446	4,048	X	X	(6,141)	(6,141)	-	(6,141)	-	(6,141)

\*The figures for Car Server are provisional at December 31, 2017.

#### Impairment tests of equity investments

As required by the IFRS, in the presence of triggers that could indicate possible impairment, equity investments undergo impairment testing to assess whether there is objective evidence indicating that the carrying amount of such assets is not fully recoverable and determine the amount of any writedown.

Impairment indicators can essentially be divided into two categories:

- qualitative indicators such as the posting of losses or significant divergences in performance from budget objectives or targets in long-term plans, the announcement/initiation of insolvency proceedings or restructuring plans or a downgrading by a specialized agency;
- quantitative indicators, represented by a reduction in fair value below the carrying amount of more than 30% or for more than 24 months, a carrying amount of an equity investment in the separate financial statements that exceeds the carrying amount in the consolidated financial statements of the net assets and goodwill of the investee or the distribution by the latter of a dividend in excess of its comprehensive income.

In the presence of evidence of an impairment, the amount of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value. The latter is represented by the greater of fair value, net of any costs to sell, and value in use.

No impairment losses were recognized during the year.

As regards the investment held by Iccrea Banca in BCC Vita, there was a difference between the carrying amount recognized in the financial statements of the Bank (€101.4 million) and the fraction of equity recognized in the consolidated financial statements (€86.1 million), which prompted an impairment test. More specifically the appraisal value of the company was estimated as the sum of adjusted shareholders' equity, the value of in force business and the value of new business (goodwill). Following the impairment test, the pro-rated economic value of the company (€110 million) was greater – even assuming a minimum scenario based on a change of 0.5% in the discount rates (Ke and G) – than the value of the investment recognized in the separate and consolidated financial statements of Iccrea Banca S.p.A.. Accordingly, no impairment loss was recognized.

As regards the investment held in BCC Assicurazioni, there is a difference between the carrying amount recognized in the financial statements of Iccrea Banca S.p.A. for 2016 (€8.1 million) and the fraction of equity recognized in the consolidated financial statements (€6.1 million) owing to the losses recognized.

For the purposes of impairment testing of the company, the economic value of capital was estimated using a market multiples approach using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed.

Following the impairment test, the pro-rated value of the company (€12.8 million) was greater than the value of the equity investment recognized in the separate financial statements of Iccrea Banca S.p.A. and so no impairment loss was recognized.

As regards goodwill recognized on the acquisition of controlling interests, please see the disclosures presented in section 13.3 below.

#### 10.4 MINOR EQUITY INVESTMENTS: ACCOUNTING INFORMATION

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

#### 10.5 EQUITY INVESTMENTS: CHANGE FOR THE PERIOD

	31/12/2017	31/12/2016
<b>A. Opening balance</b>	<b>102,285</b>	<b>89,068</b>
<b>B. Increases</b>	<b>17,494</b>	<b>19,981</b>
B.1 Purchases	5,565	-
B.2 Writebacks	-	-
B.3 Revaluations	5,817	5,216
B.4 Other changes	6,112	14,765
<b>C. Decreases</b>	<b>(8,103)</b>	<b>(6,764)</b>
C.1 Sales	-	-
C.2 Writedowns	(2,571)	(1,619)
C.3 Other changes	(5,532)	(5,144)
<b>D. Closing balance</b>	<b>111,676</b>	<b>102,285</b>
<b>E. Total revaluations</b>	<b>3,111</b>	<b>2,707</b>
<b>F. Total writedowns</b>	<b>(19,882)</b>	<b>(17,196)</b>

“Writebacks/writedowns” mainly report increases (BCC Vita S.p.A.) and decreases (Satispay and BCC Assicurazioni S.p.A.) in equity investments accounted for using the equity method.

The item “Purchases” includes increases for BCC Vita S.p.A. and Car Server S.p.A., while “Other changes” comprise the elimination of dividends of BCC Vita S.p.A. and Car Server S.p.A.

## 10.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT ARRANGEMENT OR SIGNIFICANT INFLUENCE

In “Part A – Accounting Policies”, Paragraph “A. 1 – General Information” and “Section 3 – Scope and methods of consolidation” sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise control over an investee company or another entity, as well as whether there is an agreement for joint control or the exercise of significant influence.

## 10.7 COMMITMENTS IN RESPECT OF JOINT VENTURES

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

## 10.8 COMMITMENTS IN RESPECT OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

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

## 10.9 SIGNIFICANT RESTRICTIONS

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

## 10.10 OTHER INFORMATION

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

## SECTION 11 - TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS - ITEM 110

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

## SECTION 12 - PROPERTY AND EQUIPMENT - ITEM 120

### 12.1 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	31/12/2017	31/12/2016
<b>1. Owned assets</b>	<b>211,723</b>	<b>201,143</b>
a) land	26,643	28,371
b) building	131,292	125,663
c) movables	3,897	5,507
d) electrical plants	37,944	19,152
e) other	11,946	22,450
<b>2. Assets acquired under finance leases</b>	<b>9,442</b>	<b>6,748</b>
a) land	-	-
b) building	-	-
c) movables	-	-
d) electrical plants	9,442	6,748
e) other	-	-
<b>Total</b>	<b>221,165</b>	<b>207,891</b>

The Group has opted to measure assets used in operations and investment property at cost, with the exception of real estate from the consolidation of the assets underlying the units in the real estate investment funds, for which fair value measurement has been maintained as determined on the basis of appraisals by independent external appraisers and reported in the accounts of the funds.

### 12.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	31/12/2017			31/12/2016				
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
<b>1. Owned assets</b>	<b>14,219</b>	-	-	<b>5,664</b>	<b>12,158</b>	-	-	<b>12,158</b>
a) land	-	-	-	-	4	-	-	4
b) building	14,219	-	-	5,664	12,154	-	-	12,504
<b>2. Assets acquired under finance leases</b>	<b>-</b>	-	-	-	<b>-</b>	-	-	-
a) land	-	-	-	-	-	-	-	-
b) building	-	-	-	-	-	-	-	-
<b>Total</b>	<b>14,219</b>	-	-	<b>5,664</b>	<b>12,158</b>	-	-	<b>12,158</b>

### 12.3 OPERATING PROPERTY AND EQUIPMENT: COMPOSITION OF REVALUED ASSETS

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

## 12.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS MEASURED AT FAIR VALUE

	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
<b>1. Owned assets</b>	<b>17,072</b>	<b>481,558</b>	-	<b>39,770</b>	<b>441,561</b>	-
a) land	-	-	-	-	-	-
b) building	17,072	481,558	-	39,770	441,561	-
<b>2. Assets acquired under finance leases</b>	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) building	-	-	-	-	-	-
<b>Total</b>	<b>17,072</b>	<b>481,558</b>	-	<b>39,770</b>	<b>441,561</b>	-

This item includes property from the consolidation of units of the "Securfondo" and "Securis Real Estate I, II, III". As discussed in "Part A– Accounting policies " the changes in the fair value of these properties are recognized in profit or loss under "Net gain (loss) from valuation at fair value of property and equipment and intangible assets".

## 12.5 OPERATING PROPERTY AND EQUIPMENT: CHANGE FOR THE PERIOD

	Land	Buildings	Movables	Electronic plant	Other	Total
<b>A. Gross opening balance</b>	<b>28,371</b>	<b>166,800</b>	<b>11,804</b>	<b>51,433</b>	<b>27,761</b>	<b>286,169</b>
A.1 Total net value adjustments	-	41,138	6,297	25,532	5,311	78,278
A.2 Net opening balance	28,371	125,662	5,507	25,901	22,450	207,891
<b>B. Increases</b>	<b>4</b>	<b>19,680</b>	<b>550</b>	<b>34,310</b>	<b>26,985</b>	<b>81,529</b>
B.1 Purchases	-	19,680	550	34,214	15,955	70,399
B.2 Capitalized improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognized in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	4	-	-	-	-	4
B.7 Other changes	-	-	0	96	11,030	11,126
<b>C. Decreases</b>	<b>1,731</b>	<b>14,050</b>	<b>2,160</b>	<b>12,825</b>	<b>37,489</b>	<b>68,255</b>
C.1 Sales	446	3,632	816	136	163	5,193
C.2 Depreciation	-	4,687	915	12,467	851	18,920
C.3 Writedowns for impairment recognized in:	-	-	-	-	123	123
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	123	123
C.4 Fair value losses recognized in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to	1,075	5,031	429	109	142	6,786
a) investment property	-	2,170	-	-	-	2,170
b) discontinuing operations	1,075	2,861	429	109	142	4,616
C.7 Other changes	210	700	-	113	36,210	37,233
<b>D. Closing net balance</b>	<b>26,644</b>	<b>131,292</b>	<b>3,897</b>	<b>47,385</b>	<b>11,946</b>	<b>221,165</b>
D.1 Total net writedowns	210	48,479	7,746	36,100	4,782	97,317
D.2 Closing gross balance	26,854	179,771	11,643	83,486	16,728	318,482
<b>E. Measurement at cost</b>	<b>8,883</b>	<b>27,548</b>	<b>2,691</b>	<b>640</b>	<b>2,221</b>	<b>41,983</b>

Increases in property and equipment mainly regard:

- the capitalization of expansion and upgrading works associated with the premises in via Lucrezia Romana in the amount of €19.6 million in the Buildings category and €11 million in the Electronic Plant category;
- the implementation of the "Data Center Transformation" project in the amount of €8.3 million in the Electronic Plant category;
- the purchase of new central hardware, which was configured and entered service in 2017 in the amount of €7.6 million;
- the recognition of an asset returning from a finance lease in the amount of €6.6 million.

## 12.6 INVESTMENT PROPERTY: CHANGE FOR THE PERIOD

	31/12/2017	
	Land	Building
<b>A. Opening balance</b>	<b>4</b>	<b>493,485</b>
<b>B. Increases</b>	<b>-</b>	<b>66,892</b>
B.1 Purchases	-	64,722
B.2 Capitalized improvement costs	-	-
B.3 Fair value gains	-	-
B.4 Writebacks	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from operating property and equipment	-	2,170
B.7 Other changes	-	-
<b>C. Decreases</b>	<b>4</b>	<b>47,528</b>
C.1 Sales	-	25,357
C.2 Depreciation	-	-
C.3 Fair value losses	-	22,171
C.4 Impairment writedowns	-	-
C.5 Negative exchange rate differences	-	-
C.6 Transfers to other portfolios	4	-
a) operating property and equipment	4	-
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
<b>D. Closing balance</b>	<b>-</b>	<b>512,849</b>
<b>E. Measurement at fair value</b>	<b>-</b>	<b>14,219</b>

## 12.7 COMMITMENTS TO ACQUIRE PROPERTY AND EQUIPMENT

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



## SECTION 13 - INTANGIBLE ASSETS - ITEM 130

## 13.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	31/12/2017		31/12/2016	
	Finite life	Indefinite life	Finite life	Indefinite life
<b>A.1 Goodwill</b>	<b>X</b>	<b>21,686</b>	<b>X</b>	<b>22,593</b>
A.1.1 pertaining to the Group	X	21,686	X	22,593
A.1.2 pertaining to non-controlling interests	X	-	X	-
<b>A.2 Other intangible assets</b>	<b>27,045</b>	<b>677</b>	<b>15,651</b>	<b>625</b>
A.2.1 Assets carried at cost:	27,045	677	15,651	625
a) internally generated intangible assets	3,349	-	2,960	-
b) other assets	23,696	677	12,691	625
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
<b>Total</b>	<b>27,045</b>	<b>22,363</b>	<b>15,651</b>	<b>23,218</b>

The reduction of €907 thousand in goodwill reflects the impairment loss recognized on the goodwill of Banca Sviluppo.

The increase of €11 million in in other assets partly reflects the formation of the Mutual Banking Group, largely associated with:

- the purchase of software licenses;
- the capitalization of costs to develop software applications.

The useful life of the Group's other intangible assets, mainly software, is between 3 and 5 years.

## 13.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Finite	Indefinite	Finite	Indefinite	
<b>A. Opening balance</b>	<b>22,593</b>	<b>4,621</b>	-	<b>17,868</b>	-	<b>45,082</b>
A.1 Total net writedowns	-	(1,661)	-	(5,177)	625	(6,213)
A.2 Opening net balance	22,593	2,960	-	12,691	625	38,869
<b>B Increases</b>	-	<b>1,639</b>	-	<b>20,709</b>	<b>181</b>	<b>22,529</b>
B.1 Purchases	-	-	-	20,484	181	20,665
B.2 Increases in internally generated intangible assets	x	1,639	-	-	-	1,639
B.3 Writebacks	x	-	-	-	-	-
B.4 Fair value gains recognized in:	-	-	-	-	-	-
- equity	x	-	-	-	-	-
- income statement	x	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	224	-	224
<b>C. Decreases</b>	<b>907</b>	<b>1,250</b>	-	<b>9,704</b>	<b>129</b>	<b>11,990</b>
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	907	1,250	-	9,704	129	11,990
- Amortization	x	1,250	-	9,704	129	11,083
- Impairment:	907	-	-	-	-	907
+ equity	x	-	-	-	-	-
+ income statement	907	-	-	-	-	907
C.3 Fair value losses recognized in:	-	-	-	-	-	-
- equity	x	-	-	-	-	-
- income statement	x	-	-	-	-	-
Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Closing net balance</b>	<b>21,686</b>	<b>3,349</b>	-	<b>23,696</b>	<b>677</b>	<b>49,408</b>
D.1 Total net writedowns	-	-	-	(778)	(129)	(907)
<b>E. Closing gross balance</b>	<b>21,686</b>	<b>3,349</b>	-	<b>24,474</b>	<b>806</b>	<b>50,315</b>
<b>F. Measurement at cost</b>	-	-	-	-	-	-

### 13.3 OTHER INFORMATION

In regard to the recognition methods for goodwill and other intangible assets, please see Part A – Accounting policies.

The table below shows the allocation of goodwill among the various cash generating units.

	31/12/2017	31/12/2016
Retail	16,671	17,578
Corporate	138	138
Institutional	4,877	4,877
<b>Total</b>	<b>21,686</b>	<b>22,593</b>

For the intangible assets with a finite useful life, amortization for the year was recognized in profit or loss (under item "210. Net adjustments of intangible assets").

In accordance with IAS 36, both intangible assets with an indefinite useful life and goodwill undergo impairment testing on an annual basis to verify the recoverability of their value. In particular, for intangible assets with a finite useful life, impairment testing is carried out any time the appropriate indicators show evidence of impairment. The recoverable amount is the higher of the value in use and the fair value less costs to sell.

#### Definition of cash generating units (CGUs)

In order to identify, for the purposes of IAS 36, any impairment of intangible assets with an indefinite life (including goodwill) that only generate cash flows jointly with other business activities, the estimation of value in use requires the preliminary allocation of those intangible assets to relatively independent organizational units that are capable of generating cash flows largely independent of those produced by other business areas but interdependent within the business unit generating them. In IAS/IFRS terminology, such business units are known as cash generating units (CGUs).

IAS 36 calls for the correlation of the level at which impairment is tested with the level of internal reporting at which management controls increases and decreases in this value. In this regard, the definition of this level closely depends on organizational models and the assignment of management responsibilities for the purposes of defining policies for operations and the consequent monitoring. These models may diverge from the organizational structures of the legal entities through which operations are carried out, and are very often closely linked to the definition of operating segments at the basis of the segment reporting envisaged by IFRS 8.

These CGUs correspond to the Group's business units and, at the same time, are the core business areas considered in segment reporting. The carrying amount of the CGUs is determined in a manner consistent with the criterion for estimating their recoverable amount. For a bank, the cash flows generated by a CGU cannot be identified without considering the cash flows from financial assets/liabilities, as these form part of the core business. In other words, the recoverable amount of the CGUs is impacted by the aforementioned cash flows and, therefore, their carrying amount must be determined in accordance with the scope of the estimation used in determining recoverable amount; thus, they also include financial assets/liabilities. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

Under this approach (so-called "equity side"), the carrying amount of Iccrea Group CGUs can be determined in terms of their contribution to consolidated shareholders' equity including any non-controlling interests.

The table below reports the carrying amounts of the CGUs and the goodwill allocated to each. As they are determined for the purpose of impairment testing, these values take account of the portion of goodwill attributable to non-controlling interests.

CGU	Carrying amount	Of which goodwill
Retail	1,806,507	16,671
Corporate	8,864,156	138
Institutional	33,939,299	4,877

## Impairment testing results

With regard to the goodwill recognized for Banca Sviluppo (€7 million, at December 31, 2016), the impairment test was conducted using a mixed equity approach, with the separate equity amount adjusted by the independent estimated of goodwill, the latter being determined on the basis of the value of funding. Taking account of the valuation of 90 branches of the bank on the part of the Parent Company, for which various mutual banks had expressed an interest, 16 branches were sold during 2017 and the early months of 2018 for €5.5 million, equal to an average goodwill of 1.2% on funding. In the light of those transactions, the residual funding of the bank (about €2.1 billion) was valued using an average multiplier determined on the basis of the realized goodwill. The results of the impairment test prompted goodwill to be written down by €907 thousand in the consolidated financial statements.

With regard to the goodwill recognized in the consolidated accounts for the acquisition of control of BCC Risparmio e Previdenza SGR (€10.5 million), an adjusted equity method was used to value the company. The impairment test supported the carrying amounts recognized at the reporting date.

As regards the goodwill of BCC Sistemi Informatici (€4.8 million), the impairment testing involved the estimation of the economic value of the company's capital using a market multiples approach. The market multiples approach values a company by using data on the stock prices of comparable companies, calculating and applying market multiples to the indicators of the company being assessed. In this case, an international panel of companies operating in the IT sector and software development industry, which represent the main activities of BCC Sistemi Informatici, was considered. For measurement purposes, the market multiples used were P/BV (Price/Book Value) and P/E (Price/Earning)s.

The impairment test supported the amounts recognized in the financial statements.

In view of the methods adopted, no growth rates or discount rates were adopted in the valuations. Accordingly, the associated disclosure requirement does not apply.

## Sensitivity analyses

Since value in use is determined by using estimates and assumptions that may have some level of uncertainty, sensitivity analyses were performed, as required by the IFRS, to assess the sensitivity of the results obtained to changes in the parameters and the underlying hypotheses. The goodwill recorded has been confirmed.

## SECTION 14 - TAX ASSETS AND LIABILITIES – ITEM 140 130 OF ASSETS AND ITEM 80 OF LIABILITIES

### 14.1 DEFERRED TAX ASSETS: COMPOSITION

	31/12/2017	31/12/2016
<b>A. Gross deferred tax assets</b>	<b>215,260</b>	<b>239,552</b>
A1. Loans (including securitizations)	171,527	180,667
A2. Other financial instruments	2,012	3,710
A3. Goodwill	10	12
A4. Deferred charges	-	-
A5 Property and equipment	368	324
A6. Provisions for risks and charges	15,647	14,613
A7. Entertainment expenses	-	-
A8. Personnel costs	1,244	2,094
A9. Tax losses	16,916	18,639
A10. Unused tax credits to deduct	3,072	14,552
A11. Other	4,464	4,942
<b>B. Offsetting with deferred tax liabilities</b>	<b>(3,149)</b>	<b>(6,078)</b>
<b>C. Net deferred tax assets</b>	<b>212,111</b>	<b>233,474</b>

Under the provisions of Basel 3, deferred tax assets other than those in respect of prepaid taxes under Law 214/2011 (weighted at 100%) are reported net of the associated deferred taxation.<sup>1</sup> The effect of that offsetting amounted to €3.1 million.

The change in deferred tax assets is mainly attributable to:

- the conversion into tax credits of deferred tax assets generated by the writedown of receivables in the amount of €8.6 million.
- the conversion of deferred tax assets connected with the allowance for corporate equity (ACE) that could not be used due to insufficient consolidated taxable income for IRES purposes into tax credits for IRAP purposes in the amount of €11 million;
- prior-year tax losses for the purposes of consolidated IRES in the amount of €16.9 million.

<sup>1</sup> DTAs and DTLs are offset for taxes of the same nature levied by same tax authority, in compliance with the provisions of Article 38, paragraph 3, of Regulation (EU) 575/2013.

## 14.2 DEFERRED TAX LIABILITIES: COMPOSITION

	31/12/2017	31/12/2016
<b>A. Gross deferred tax liabilities</b>	<b>7,146</b>	<b>9,849</b>
A1. Capital gains tax in installments	1,198	2,432
A2. Goodwill	397	397
A3. Property and equipment	222	230
A4. Financial instruments	4,662	5,572
A5. Personnel costs	2	20
A6. Other	665	1,197
<b>B. Offsetting with deferred tax assets</b>	<b>(3,149)</b>	<b>(6,078)</b>
<b>C. Net deferred tax liabilities</b>	<b>3,997</b>	<b>3,771</b>

The decrease in deferred taxation is mainly attributable to the reversal to profit or loss of the positive reserves on AFS debt securities (government securities) and the payment of the tax on the capital gain from the disposal of a business unit in instalments.

### Deferred taxes not recognized

Deferred tax liabilities were not recognized in respect of the revaluation reserve established pursuant to Law 342/2000 (already net of the associated tax paid), Law 413/1991 and Law 196/1983. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €9.7 million.

### 14.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN INCOME STATEMENT)

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>235,409</b>	<b>229,176</b>
<b>2. Increases</b>	<b>12,906</b>	<b>32,239</b>
2.1 Deferred tax assets recognized during the period	12,762	29,296
a) in respect of previous period		-
b) due to change in accounting policies		-
c) writebacks		-
d) other	12,762	29,296
2.2 New taxes or increases in tax rates	15	-
2.3 Other increases	130	2,943
<b>3. Decreases</b>	<b>35,268</b>	<b>26,005</b>
3.1 Deferred tax assets derecognized during the period	23,526	8,762
a) reversals	21,584	7,033
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	1,941	1,729
3.2 Reduction in tax rates	-	-
3.3 Other decreases	11,742	17,243
a) transformation in tax credits pursuant to Law 214/2011	7,500	17,228
b) other	4,241	14
<b>4. Closing balance</b>	<b>213,048</b>	<b>235,410</b>

### 14.3.1 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO LAW 214/2011 (RECOGNIZED IN INCOME STATEMENT)

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>181,105</b>	<b>200,040</b>
<b>2. Increases</b>	<b>381</b>	<b>-</b>
<b>3. Decreases</b>	<b>9,420</b>	<b>18,935</b>
3.1 Reversals	1,904	1,192
3.2 Conversion into tax credits	7,500	17,228
a) arising from losses for the year	7,500	17,228
b) arising from tax losses	-	-
3.3 Other decreases	15	514
<b>4. Closing balance</b>	<b>172,066</b>	<b>181,105</b>



## 14.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN INCOME STATEMENT)

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>4,068</b>	<b>5,696</b>
<b>2. Increases</b>	<b>5</b>	<b>123</b>
2.1 Deferred tax liabilities recognized during the period	5	86
a) in respect of previous period	-	-
b) due to change in accounting policies	-	-
c) other	5	86
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	37
<b>3. Decreases</b>	<b>1,708</b>	<b>1,751</b>
3.1 Deferred tax liabilities derecognized during the period	1,682	1,612
a) reversals	1,158	1,216
b) due to changes in accounting policies	-	-
c) other	524	396
3.2 Reduction in tax rates	-	21
3.3 Other decreases:	26	118
<b>4. Closing balance</b>	<b>2,365</b>	<b>4,068</b>

## 14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>4,070</b>	<b>3,740</b>
<b>2. Increases</b>	<b>121</b>	<b>1,194</b>
2.1 Deferred tax assets recognized during the period	63	1,181
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) other	63	1,181
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	58	13
<b>3. Decreases</b>	<b>1,979</b>	<b>864</b>
3.1 Deferred tax assets derecognized during the period	1,967	47
a) reversals	1,950	47
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	17	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	12	817
<b>4. Closing balance</b>	<b>2,212</b>	<b>4,070</b>

## 14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	31/12/2017	31/12/2016
<b>1. Opening balance</b>	<b>5,782</b>	<b>22,710</b>
<b>2. Increases</b>	<b>237</b>	<b>123</b>
2.1 Deferred tax liabilities recognized during the period	237	2
a) in respect of previous periods	224	-
b) due to change in accounting policies	-	-
c) other	13	2
2.2 New taxes or increases in tax rates	-	3
2.3 Other increases	-	118
<b>3. Decreases</b>	<b>1,238</b>	<b>17,051</b>
3.1 Deferred tax liabilities derecognized during the period	-	17,037
a) reversals	1,236	17,036
b) due to change in accounting policies	-	-
c) other	-	1
3.2 Reduction in tax rates	-	-
3.3 Other decreases	2	14
<b>4. Closing balance</b>	<b>4,781</b>	<b>5,782</b>

## 14.7 OTHER INFORMATION

### A) Current tax assets

	31/12/2017	31/12/2016
<b>A. Gross current tax assets</b>	<b>111,162</b>	<b>114,351</b>
A1. Corporate income tax (IRES) payments on account	33,440	33,377
A2. Regional business tax (IRAP) payments on account	10,936	12,803
A3. Other credits and withholdings	66,786	68,171
<b>B. Offsetting with current tax liabilities</b>	<b>(4,988)</b>	<b>(4,654)</b>
<b>C. Net current tax assets</b>	<b>106,174</b>	<b>109,697</b>

“Other credits and withholdings” main reflect the conversion into tax credits of DTAs regarding loan writedowns and IRAP credits from previous arising from acquisitions by Banca Sviluppo S.p.A.

### B) Current tax liabilities

	31/12/2017	31/12/2016
<b>A. Gross current tax liabilities</b>	<b>6,322</b>	<b>4,828</b>
A1. IRES liabilities	450	37
A2. IRAP liabilities	5,840	4,792
A3. Other current income tax liabilities	32	-
<b>B. Offsetting with current tax assets</b>	<b>(4,988)</b>	<b>(4,654)</b>
<b>C. Net current tax liabilities</b>	<b>1,334</b>	<b>175</b>

The composition of current taxes shows the Group’s position in respect of tax authorities in application of the regulations governing the consolidated taxation mechanism.

As regards its tax position, Iccrea Banca reports:

- for the financial year 2012, following a general audit by the Finance Police between May 8 and July 27, 2017, the assessment raised an issue with the deductibility of a cost recognized in 2012. More specifically, €48,195 was recognized under costs in 2012 and then taxed in 2015 as prior-year income. In October 2017, the Bank accepted the assessment issued by the Large Taxpayer Office of the Regional Tax Department, paying a total of €15,670 in tax plus penalties and interest.
- for the financial years 2013, 2014, 2015 and 2016 for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- on November 4, 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

## SECTION 15 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 150 OF ASSETS AND ITEM 90 OF LIABILITIES

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

	31/12/2017	31/12/2016
<b>A. Individual assets</b>	-	-
<b>Total A</b>	-	-
carried at cost	-	-
at fair value level 1	-	-
at fair value level 2	-	-
at fair value level 3	-	-
<b>B. Disposal groups (discontinued operations)</b>	-	-
B.1 Financial assets held for trading	-	-
B.2 Financial assets measured at fair value	-	-
B.3 Financial assets available for sale	-	-
B.4 Financial assets held to maturity	-	-
B.5 Due from banks	-	-
B.6 Loans to customers	214,347	-
B.7 Equity investments	-	-
B.8 Property and equipment	4,668	-
B.9 Intangible assets	-	-
B.10 Other assets	1,271	-
<b>Total B</b>	<b>220,286</b>	-
carried at cost	220,286	-
at fair value level 1	-	-
at fair value level 2	-	-
at fair value level 3	-	-
<b>C. Liabilities associated with individual assets held for sale</b>	-	-
<b>Total C</b>	-	-
carried at cost	-	-
at fair value level 1	-	-
at fair value level 2	-	-
at fair value level 3	-	-
<b>D. Liabilities associated with disposal groups held for sale</b>	-	-
D.1 Due to banks	-	-
D.2 Due to customers	(261,099)	-
D.3 Securities issued	(20,773)	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities measured at fair value	(175)	-
D.6 Provisions	-	-
D.7 Other liabilities	-	-
<b>Total D</b>	<b>(282,047)</b>	-
carried at cost	(281,872)	-
at fair value level 1	(175)	-
at fair value level 2	-	-
at fair value level 3	-	-

## 15.2 OTHER INFORMATION

Assets and liabilities held for sale regard the assets and liabilities of the branches of Banca Sviluppo that are being sold to local mutual banks for which completion of the disposal is highly likely. As the fair value of the assets being sold is greater than their carrying amount, those assets are reported at their carrying amount.

## 15.3 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 16 - OTHER ASSETS - ITEM 160

## 16.1 OTHER ASSETS: COMPOSITION

	31/12/2017	31/12/2016
- Consolidation adjustments	72,260	44,548
- Tax receivables	77,916	84,828
- Current account checks drawn on third parties held by cashier		
- Coupons and securities receivable		
- Security deposits	85	564
- Stamp duty and other valuables	-	-
- Gold, silver and precious metals	-	-
- Own bills - difference between portfolio account and transferor's account		
- Third-party bills - difference between portfolio account and transferor's account		
- Items in transit between branches and items being processed	54,553	82,945
- Deficits, misappropriation and robbery		
- Accrued income not attributable to separate line item	707	23
- Prepaid expenses not attributable to separate line item	20,138	10,894
- Leasehold improvements	805	656
- Other	186,096	95,723
<b>Total</b>	<b>412,560</b>	<b>320,181</b>

The item "Tax receivables" is mainly composed of:

- VAT credits of €20.5 million
- stamp duty of €28.6 million;
- IRAP credits for which reimbursement has been requested of €6.3 million;
- tax credits of €4.8 million.
- withholding tax on current accounts and certificates of deposit of €5.7 million.

The item "Other" is mainly composed of:

- premiums to be received from derivatives business with customers of €14.1 million;
- receivables due from Deposit Guarantee Fund for the definitive deficit in respect of the extraordinary Banca Romagna Cooperativa transaction as well as the deficit from the acquisition of CrediVenetoof €15.20 million;
- fees and commissions from the electronic money sector in the amount of €32.6 million;
- trade receivables of €30.9 million.
- failed sales transactions in the amount of €65.4 million.

## LIABILITIES

### SECTION 1 - DUE TO BANKS - ITEM 10

#### 1.1 DUE TO BANKS: COMPOSITION BY TYPE

	31/12/2017	31/12/2016
<b>1. Due to central banks</b>	<b>13,836,426</b>	<b>5,500,000</b>
<b>2. Due to banks</b>	<b>5,398,679</b>	<b>7,222,738</b>
2.1 Current accounts and demand deposits	2,542,151	3,864,323
2.2 Fixed-term deposits	2,454,620	2,899,692
2.3 Loans	370,475	433,207
2.3.1 Repurchase agreements	361,200	421,991
2.3.2 Other	9,275	11,216
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	31,433	25,516
<b>Total</b>	<b>19,235,105</b>	<b>12,722,738</b>
Fair value L1	-	88,201
Fair value L2	473,090	1,899
Fair value L3	18,760,435	12,693,072
<b>Total fair value</b>	<b>19,233,524</b>	<b>12,783,792</b>

The item “due to central banks” represents financing from the ECB. In March 2017 the Bank participated in the last T-LTRO II auction, using the residual available funds of €8.9 billion, thereby using the maximum amount available to the Group of €13.8 billion; that financing falls due in June 2020.

“Current accounts and demand deposits” include:

- correspondence accounts amounting to €117 million and demand deposits of €2,355 million (of which €135 million in foreign currency);
- cash collateral received from bank counterparties securing derivatives exposures supported by Credit Support Annexes (CSA) of €83.2 million.

The sub-item “Fixed-term deposits” also includes deposits received from the mutual banks amounting to around €898.6 million for indirect compliance with the reserve requirement and foreign currency deposits of €130 million.

“Other payables” include:

- €28.1 million in payables for subscription/maintenance fees to be paid to bank counterparties for placement of own and third-party financial products;
- €1.9 million of cashier’s checks issued and not yet presented.

The fair value is obtained using discounted cash flow techniques.

#### 1.2 BREAKDOWN OF ITEM 10 “DUE TO BANKS”: SUBORDINATED LIABILITIES

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

#### 1.3 BREAKDOWN OF ITEM 10 “DUE TO BANKS”: STRUCTURED LIABILITIES

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



#### 1.4 DUE TO BANKS: LIABILITIES HEDGED SPECIFICALLY

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

#### 1.5 LIABILITIES IN RESPECT OF FINANCE LEASES

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

## SECTION 2 - DUE TO CUSTOMERS - ITEM 20

### 2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

	31/12/2017	31/12/2016
<b>1. Current accounts and demand deposits</b>	<b>1,329,945</b>	<b>1,626,677</b>
<b>2. Fixed-term deposits</b>	<b>75,168</b>	<b>154,242</b>
<b>3. Loans</b>	<b>7,457,235</b>	<b>23,713,830</b>
3.1 Repurchase agreements	7,334,827	23,535,189
3.2 Other	122,408	178,641
<b>4. Liabilities in respect of commitments to repurchase own equity instruments</b>	-	-
<b>5. Other payables</b>	<b>1,206,512</b>	<b>1,334,581</b>
<b>Total</b>	<b>10,068,860</b>	<b>26,829,330</b>
Fair Value L1	-	-
Fair Value L2	-	3,138
Fair Value L3	10,007,231	26,811,388
<b>Total Fair Value</b>	<b>10,007,231</b>	<b>26,814,526</b>

“Current accounts and demand deposits” include €132 million in savings deposits and cash collateral paid to financial counterparties to secure derivatives exposures supported by Credit Support Annexes (CSA) of €8 million.

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

The sub-item “Loans – other” includes €121.4 million of sundry loans from Agos-Ducato S.p.A. to the subsidiary BCC Credito Consumo S.p.A.

The item “Other payables” essentially comprises:

- bankers’ drafts issued but not yet presented for settlement in the amount of €414 million;
- liabilities in respect of assets assigned but not derecognized in securitizations by the Group companies in the amount of €546 million;
- third-party funds in administration, mainly with Cassa Depositi e Prestiti, in the amount of €104 million;
- prepaid cards of €92.7 million.

The fair value is obtained using discounted cash flow techniques.

### 2.2 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: SUBORDINATED LIABILITIES

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

### 2.3 BREAKDOWN OF ITEM 20 “DUE TO CUSTOMERS”: STRUCTURED LIABILITIES

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

### 2.4 DUE TO CUSTOMERS: LIABILITIES HEDGED SPECIFICALLY

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

### 2.5 LIABILITIES IN RESPECT OF FINANCE LEASES

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

## SECTION 3 - SECURITIES ISSUED - ITEM 30

## 3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	31/12/2017				31/12/2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. Bonds	5,575,533	5,317,114	300,958	-	4,226,330	3,595,607	789,777	-
1.1 structured	33,537	32,633	1,614	-	490,739	413,282	94,267	-
1.2 other	5,541,997	5,284,481	299,344	-	3,735,591	3,182,325	695,510	-
2. Other securities	113,334	-	-	113,334	240,524	-	-	243,533
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	113,334	-	-	113,334	240,524	-	-	243,533
<b>Total</b>	<b>5,688,867</b>	<b>5,317,114</b>	<b>300,958</b>	<b>113,334</b>	<b>4,466,854</b>	<b>3,595,607</b>	<b>789,777</b>	<b>243,533</b>

The item comprises bonds issued by the Group 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 (see table 3.3 below), as well as unhedged bonds issued measured at amortized cost.

The item “Bonds– structured” mainly regards bonds with structures such as stepped and floored&capped.

“Other securities – other” include certificates of deposit issued by Banca Sviluppo S.p.A. to customers.

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

	31/12/2017	31/12/2016
Opening balance	467,258	469,884
Issues in the period	-	-
Other changes	(178,942)	(2,626)
<b>Closing balance</b>	<b>288,316</b>	<b>467,258</b>

Changes in the period are attributable to the combined impact of:

- the repayment of subordinated bonds issued by the subsidiary Iccrea BancaImpresa in the amount of €137 million and the repayment of the first tranche of a Iccrea Banca bond in the amount of €37 million;
- the reduction associated with the market making activity of Iccrea Banca on the Hi-Mtf in respect of listed issues for a total of €4 million.

The carrying amount of subordinated loans eligible for inclusion in own funds (Tier II) amounted to €143 million.

ISIN	ISSUE	MATURITY	INTEREST RATE	VALUE	CURRENCY
XS1246834169	18/06/2015	18/06/2025	Euribor 6m+3.50%	103,907	Euro
IT0004991995	14/03/2014	14/03/2021	4.75%	145,379	Euro
IT0005118754	29/06/2015	29/06/2025	3.50%	11,659	Euro
IT0005123820	30/07/2015	30/07/2025	Euribor 6m+350BP	16,184	Euro
IT0004674773	30/12/2010	30/12/2020	Euribor 6m ACT 365 + 0.75%	5,664	Euro
IT0004785728	23/12/2011	23/12/2018	4.75%	2,002	Euro
IT0004906241	19/04/2013	19/10/2018	5%	2,275	Euro
IT0004936438	15/07/2013	15/01/2019	5%	211	Euro
IT0004987431	23/01/2014	23/01/2021	4.10%	611	Euro
IT0004992852	17/02/2014	17/08/2021	4.50%	424	Euro

### 3.3 BREAKDOWN OF ITEM 30 "SECURITIES ISSUED": SECURITIES HEDGED SPECIFICALLY

	31/12/2017	31/12/2016
<b>1. Securities covered by specific fair value hedges:</b>	<b>422,174</b>	<b>522,913</b>
a) interest rate risk	422,174	522,913
b) exchange rate risk	-	-
c) multiple risks	-	-
<b>2. Securities covered by specific cash flow hedges:</b>	<b>71,925</b>	<b>80,166</b>
a) interest rate risk	-	-
b) exchange rate risk	71,925	80,166
c) other	-	-
<b>Total</b>	<b>494,099</b>	<b>603,079</b>

The amounts reported regard 4 bonds issued by the Group hedged for interest rate risk using IRSs and IROs.

The amount under point 2.b) regards 4 bonds issued in US dollars by Iccrea Banca S.p.A and hedged with CCIRSs.

## SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40

## 4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	31/12/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>A. On-balance-sheet liabilities</b>										
1. Due to banks	124	133	-	-	133	571	606	-	-	606
2. Due to customers	50,279	50,497	84	-	50,581	91,863	96,983	16	-	96,999
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total A</b>	<b>50,403</b>	<b>50,630</b>	<b>84</b>	<b>-</b>	<b>50,714</b>	<b>92,434</b>	<b>97,589</b>	<b>16</b>	<b>-</b>	<b>97,605</b>
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-	-
1. Financial derivatives	X	28	305,708	-	X	X	866	311,146	-	X
1.1 Trading	X	28	305,708	-	X	X	866	311,146	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>28</b>	<b>305,708</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>866</b>	<b>311,146</b>	<b>-</b>	<b>X</b>
<b>Total (A+B)</b>	<b>X</b>	<b>50,659</b>	<b>305,791</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>98,455</b>	<b>311,162</b>	<b>-</b>	<b>X</b>

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

Part A of the table reports short positions on debt securities generated by securities trading activities (shown under amounts due to banks or due to customers, depending on the assignor), which were closed in the first few days of January 2017.

The item includes the negative value of trading derivatives entered into by the Group on behalf of mutual banks.

#### 4.2 BREAKDOWN OF ITEM 40 " FINANCIAL LIABILITIES HELD FOR TRADING ": SUBORDINATED LIABILITIES

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

#### 4.3 BREAKDOWN OF ITEM 40 " FINANCIAL LIABILITIES HELD FOR TRADING ": STRUCTURED LIABILITIES

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

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

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

	31/12/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		Level1	Level2	Level3			Level1	Level2	Level3	
<b>1. Due to banks</b>	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
<b>2. Due to customers</b>	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
<b>3. Debt securities</b>	<b>446</b>	<b>492</b>	-	-	<b>485</b>	<b>20,580</b>	<b>19,469</b>	<b>1,920</b>	-	<b>21,076</b>
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	446	492	-	-	X	20,580	19,469	1,920	-	X
<b>Total</b>	<b>446</b>	<b>492</b>	-	-	<b>485</b>	<b>20,580</b>	<b>19,469</b>	<b>1,920</b>	-	<b>21,076</b>

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 or notional value

“Financial liabilities at fair value” include three structured bonds (stepped and floored&capped) issued by Banca Sviluppo S.p.A. to avoid the separation of the embedded derivative. During the year, part of “Financial liabilities at fair value” was reclassified to “Liabilities held for sale”.

### 5.2 BREAKDOWN OF ITEM 50 "FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE": SUBORDINATED LIABILITIES

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



## SECTION 6 - HEDGING DERIVATIVES - ITEM 60

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

	Fair value 31/12/2017			NV 31/12/2017	Fair value 31/12/2016			NV 31/12/2016
	L1	L2	L3		L1	L2	L3	
<b>A) Financial derivatives</b>	-	56,416	-	(1,263,599)	-	63,318	-	2,189,916
1) Fair value	-	52,457	-	(1,221,908)	-	59,074	-	2,157,317
2) Cash flows	-	3,959	-	(41,691)	-	4,244	-	32,599
3) Investments in foreign operations	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	56,416	-	(1,263,599)	-	63,318	-	2,189,916

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

NV = Notional value

These are financial derivatives designated as hedges of the risk of changes in the fair value, caused by the volatility of interest rates, of financial instruments associated with bond issues, financial assets held for sale, the loan portfolio and variable-rate loans with average indexing, 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					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	multiple risks				
1. Financial assets available for sale	37,793	-	-	-	-	X	-	X	X
2. Loans	11,532	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	141	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>49,325</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	2,991	-	-	X	-	X	3,959	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
<b>Total liabilities</b>	<b>2,991</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,959</b>	<b>-</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	-	-	-

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

The amounts reported under “loans” mainly regard the negative value of hedging derivatives used to hedge the risk on fixed-rate receivables in lease transactions.

The amount in respect of the specific cash flows hedges of “financial liabilities” regards 2 dollar-denominated bonds.

The amount reported under point 4 regards generic hedges of portfolios of deposits managed by the treasury using OISs.

The item “financial liabilities” includes the negative fair value of IRSs and IROs hedging two bonds issued by the Group.

## **SECTION 7 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 70**

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

## **SECTION 8 – TAX LIABILITIES – ITEM 80**

See section 14 under assets.

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

See section 15 under assets.

## SECTION 10 – OTHER LIABILITIES - ITEM 100

### 10.1 OTHER LIABILITIES: COMPOSITION

	31/12/2017	31/12/2016
- Tax payables due to tax authorities	23,458	35,428
- Amounts due to social security institutions and employees	46,513	39,615
- Amounts available to customers	33,605	39,303
- Items being processed and items in transit between branches	100,452	96,982
- Accrued expenses not attributable to separate line item	419	526
- Deferred income not attributable to separate line item	3,211	5,819
- Liabilities in respect of impaired guarantees	10,108	5,007
- Other	450,525	352,870
<b>Total</b>	<b>668,291</b>	<b>575,550</b>

The item “tax payables due to tax authorities” includes €11.8 million in stamp duty on subscriptions.

The item “amounts due to social security institutions and employees” includes €11.3 million in respect of solidarity funds for early termination incentives.

The item “amounts available to customers” includes:

- €20 million for amounts available for pensions to be disbursed to customers in the first few days of 2018;
- €3.3 million in expired bankers' drafts.

“Items being processed” include €79.5 million in items settled in the early days of 2018.

The item “other” includes:

- €195.9 million for failed purchase transactions (€95.8 million in 2016);
- 24.9 million for e-money transactions;
- 53.7 million for trade items;
- 7.7 million for premiums to be paid for derivatives business with customers;
- 9.1 million for provisions for risk associated with guarantees granted;
- 6.4 million for funds provided by the EIB;
- liabilities for deficits on the extraordinary acquisition of BCC dei Due Mari and the extraordinary disposal of BCC Vicentino-Poiana Maggiore and Banca Veronese for a total amount of €3.1 million.

## 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, in compliance with the criteria established by IAS 19 concerning defined-benefit plans.

### 11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	31/12/2017	31/12/2016
<b>A. Opening balance</b>	<b>29,612</b>	<b>29,551</b>
<b>B. Increases</b>	<b>1,037</b>	<b>5,379</b>
B.1 Provisions for the period	454	351
B.2 Other increases	583	5,028
<b>C. Decreases</b>	<b>4,768</b>	<b>5,318</b>
C.1 Benefit payments	3,571	4,930
C.2 Other decreases	1,197	388
<b>D. Closing balance</b>	<b>25,881</b>	<b>29,612</b>
<b>Total</b>	<b>25,881</b>	<b>29,612</b>

Items Other increases/Other decreases mainly include the effects of the actuarial recalculation of the accrued obligation determined using the projected unit credit method (current service cost, interest cost and actuarial gains/losses).

### 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 main actuarial assumptions and reference rates used are:

- mortality rates: ISTAT's 2004 mortality tables;
- annual turnover rates: 2-6.50%;
- discount rate: 1.30%;
- rate of inflation: 1.50%;
- rate of increase in salaries: 2.38% (used only for seniority purposes).

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

## SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

### 12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	31/12/2017	31/12/2016
<b>1 Company pension plans</b>	-	<b>1,907</b>
<b>2. Other provisions for risks and charges</b>	<b>63,464</b>	<b>74,769</b>
2.1 legal disputes	33,532	45,652
2.2 personnel expenses	1,647	-
2.3 other	28,285	29,117
<b>Total</b>	<b>63,464</b>	<b>76,676</b>

During the year, employee seniority bonuses were reclassified from “company pension plans” to “other provisions for risks and charges – personnel expenses”.

The sub-item 2.1 “Legal disputes” mainly includes revocatory actions, litigation and disputes and legal costs for debt collection.

The sub-item 2.3 “Provisions for risks and charges – other” mainly includes provisions for income support solidarity funds for employees in early retirement schemes acquired from BCC Euganea, BCC Due Mari and Banca Romagna Cooperativa in the amount of €17 million and provisions for the estimated contingent liability in respect of former tenants of leased properties in the amount of about €5 million.

## 12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	31/12/2017	
	Retirement provisions	Other provisions
<b>A. Opening balance</b>	<b>1,907</b>	<b>74,769</b>
<b>B. Increases</b>	<b>-</b>	<b>8,328</b>
B.1 Provisions for the year	-	3,779
B.2 Changes due to passage of time	-	243
B.3 Changes due to changes in the discount rate	-	-
B.4 Other increases	-	4,306
<b>C. Decreases</b>	<b>1,907</b>	<b>19,632</b>
C.1 Use during the period	-	17,329
C.2 Changes due to changes in the discount rate	-	34
C.3 Other decreases	1,907	2,270
<b>D. Closing balance</b>	<b>-</b>	<b>63,464</b>

## 12.3 DEFINED-BENEFIT COMPANY PENSION PLANS

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

## 2.4 PROVISIONS - OTHER

The information is summarized in the comments to table 12.1 and the changes reported in Table 12.2.

### **SECTION 13 - TECHNICAL RESERVES - ITEM 130**

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

### **SECTION 14 - REDEEMABLE SHARES - ITEM 150**

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



## SECTION 15 - SHAREHOLDERS' EQUITY - ITEMS 140, 160, 170, 180, 190, 200 AND 220

### 15.1 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION

As at the reporting date, share capital was represented by 22,285,487 ordinary shares with a par value of €51.65 each with a total value of €1,151,045,403.55 fully paid up. The Group held 584,222 Treasury shares.

### 15.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
<b>A. Shares at the start of the period</b>	<b>22,285,487</b>	-
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(584,222)	-
A.2 Shares in circulation: opening balance	21,701,265	-
<b>B. Increases</b>	-	-
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	-	-
<b>C. Decreases</b>	-	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
<b>D. Shares in circulation: closing balance</b>	<b>21,701,265</b>	-
D.1 Treasury shares (+)	584,222	-
D.2 Shares at the end of the year	584,222	-
- fully paid	22,285,487	-
- partially paid	-	-

### 15.3 SHARE CAPITAL – OTHER INFORMATION

Share capital entirely composed of ordinary shares with a value equal to subscribed share capital, which has been entirely paid in.

### 15.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to €383 million and include: the legal reserve, the extraordinary reserve, the reserve for treasury shares and other reserves for a total of €401 million, as well as the consolidation reserve of -€18 million. Consolidation reserves are generated by the elimination of the carrying amount of equity investments against the corresponding fraction of shareholders' equity of each investment.

The valuation reserves were a positive €73.5 million and include the reserves from the valuation of assets available for sale of €18 million, the reserves on cash flow hedge derivatives of -€1million, the reserves from special revaluation laws of €52.3 million, the negative reserve on actuarial gains (losses) for defined benefit plans of -€3.4 million, and the reserve from the valuation of investments in associated companies of €7.7 million.

### 15.5 OTHER INFORMATION

For more information, please see section F.

## SECTION 16 - NON-CONTROLLING INTERESTS – ITEM 210

## 16.1 BREAKDOWN OF ITEM 210 “NON-CONTROLLING INTERESTS”

	31/12/2017	31/12/2016
Equity investments in consolidated companies with significant non-controlling interests		
1. BCC Risparmio & Previdenza S.G.r.p.A.	10,956	8,427
2. BCC Sistemi Informatici S.p.A.	2	2
3. BCC Credito Consumo S.p.A.	2,775	2,522
4. Banca Sviluppo S.p.A.	43,759	43,823
Other equity investments	7,931	5,437
<b>Total</b>	<b>65,423</b>	<b>60,220</b>

## NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2017	31/12/2016
1. Share capital	52,080	51,880
2. Share premium reserve	464	505
3. Reserves	8,042	7,563
4. Treasury shares	-	(245)
5. Valuation reserves	8	2
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	4,829	515
<b>Total</b>	<b>65,423</b>	<b>60,220</b>

## VALUATION RESERVES PERTAINING TO NON-CONTROLLING INTERESTS: COMPOSITION

	31/12/2017	31/12/2016
1. Financial assets available for sale	46	50
2. Property and equipment	-	-
3. Intangible assets	-	-
4. Hedges of foreign operations	-	-
5. Cash flow hedges	-	-
6. Exchange rate differences	-	-
7. Non-current assets held for sale	-	-
8. Actuarial gain (loss) on defined-benefit plans	(125)	(135)
9. Portion of valuation reserves attributable to equity investments accounted for using equity method	-	-
10. Special revaluation laws	87	87
<b>Total</b>	<b>8</b>	<b>2</b>

### 16.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

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

## OTHER INFORMATION

### 1. GUARANTEES ISSUED AND COMMITMENTS

	31/12/2017	31/12/2016
<b>1) Financial guarantees issued</b>	<b>466,326</b>	<b>660,426</b>
a) Banks	34,079	32,849
b) Customers	432,248	627,577
<b>2) Commercial guarantees issued</b>	<b>98,720</b>	<b>109,320</b>
a) Banks	29,410	37,289
b) Customers	69,310	72,031
<b>3) Irrevocable commitments to disburse funds</b>	<b>587,189</b>	<b>2,022,596</b>
a) Banks	60,812	245,499
i) certain use	54,816	82,712
ii) uncertain use	5,996	162,787
b) Customers	526,377	1,777,097
i) certain use	362,215	1,576,176
ii) uncertain use	164,162	200,921
<b>4) Commitments underlying credit derivatives: sales of protection</b>	<b>15,000</b>	<b>15,000</b>
<b>5) Assets pledged as collateral for third-party debts</b>	<b>-</b>	<b>-</b>
<b>6) Other commitments</b>	<b>154,289</b>	<b>150,713</b>
<b>Total</b>	<b>1,321,524</b>	<b>2,958,055</b>

The amount of “guarantees issued” is reported at nominal value net of uses and any impairment losses and regard guarantees with which the Group undertook to discharge or guarantee the commercial/financial obligations of customers.

“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;
- lease contracts that had yet to be disbursed at the balance sheet date.

“Commitments underlying credit derivatives: sales of protection” regard the notional value net of amounts disbursed and any value adjustments (see CLN classified as at FVTPL).

## 2. ASSETS PLEDGED AS COLLATERAL FOR OWN DEBTS AND COMMITMENTS

	31/12/2017	31/12/2016
1. Financial assets held for trading	-	61,035
2. Financial assets at fair value	-	-
3. Financial assets available for sale	889,016	3,523,670
4. Financial assets held to maturity		4,738,607
5. Due from banks	311,645	258,164
6. Loans to customers	3,589,112	3,809,204
7. Property and equipment	-	-

The item includes:

- Securities for funding operations with the Eurosystem in the amount of €600 million;
- Securities pledged as collateral with the Bank of Italy for bankers' drafts in the amount of €100 million;
- Securities pledged as collateral for the settlement of securities/derivatives transactions in the amount of €244 million;
- Cash collateral in the amount of €179 million for derivatives transactions (C.S.A);
- Cash collateral and margins paid for transactions with the Clearing and Guarantee Fund (Default Fund) in the amount of €253 million;
- Loans to customers for funding operations with the Eurosystem in the amount of €2,268 billion (A.BA.CO);
- Loans to customers involved in securitizations in the amount of €994 million.;
- Loans to customers involved in transactions with CDP in the amount of €71 million.

## 3. INFORMATION ON OPERATING LEASES

There were no such positions at December 31, 2017.

## 4. COMPOSITION OF INVESTMENTS ASSOCIATED WITH UNIT-LINKED AND INDEX-LINKED POLICIES

At December 31, 2017 there were no investments associated with unit-linked and index-linked policies.

## 5. MANAGEMENT AND INTERMEDIATION SERVICES

	31/12/2017
<b>1. Order execution on behalf of customers</b>	
a) Purchases	
1. settled	67,018,889
2. not settled	74,956
b) Sales	
1. settled	62,849,777
2. not settles	42,611
<b>2. Asset management</b>	
a) Individual	2,795,736
b) Collective	4,799,688
<b>3. Securities custody and administration</b>	
a) Third-party securities held as part of custodian bank services (excluding asset management)	
1. Securities issued by consolidated companies	
2. other securities	80,001
b) Other third-party securities on deposit (excluding asset management): other	
1. Securities issued by consolidated companies	4,395,234
2. other securities	69,131,154
c) Third-party securities deposited with third parties	199,906,406
d) Securities owned by bank deposited with third parties	77,975,520
<b>4. Other transactions</b>	113,111

“Asset management” reports the total value at market prices of the portfolios managed by the Group asset management company (BCC Risparmio&Previdenza S.G.p.A): portfolio management products of €2,795 million, units in collective investment undertakings of €4,236 million and open-end pension funds of €563 million.

## 6. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

This and the following table provide specific disclosures pursuant to IAS 32 concerning financial instruments offset in the accounts or which are potentially offsettable as they are governed by master netting arrangements or similar agreements.

The Iccrea Group has only one netting agreement that meets the requirements established by IAS 32, paragraph 42, for offsetting in the accounts.

With regard to potentially offsettable instruments, in certain circumstances the Group uses bilateral netting agreements that permit, in the case of default by the counterparty, the offsetting of creditor/debtor positions in respect of transactions in financial derivatives (I.S.D.A.).

	Gross amount of financial assets (a)	Financial liabilities offset (b)	Net amount of financial assets reported (c=a-b)	Related amounts not offset		Net amount 31/12/2017 (f=c-d-e)	Net amount 31/12/2016
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	288,368	108	288,260	84,427	63,392	140,549	193,560
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>Total 31/12/2017</b>	<b>288,368</b>	<b>108</b>	<b>288,260</b>	<b>84,427</b>	<b>63,392</b>	<b>140,549</b>	<b>X</b>
<b>Total 31/12/2016</b>	<b>275,695</b>	<b>1,473</b>	<b>274,222</b>	<b>80,622</b>	<b>-</b>	<b>X</b>	<b>193,560</b>

## 7. FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	Gross amount of financial liabilities (a)	Financial assets offset (b)	Net amount of financial liabilities reported (c=a-b)	Related amounts not offset		Net amount 31/12/2017 (f=c-d-e)	Net amount 31/12/2016
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	385,949	2,757-	383,192	86,288	99,397	200,263	171,060
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>Total 31/12/2017</b>	<b>385,949</b>	<b>2,757-</b>	<b>383,192</b>	<b>86,288</b>	<b>99,397</b>	<b>200,263</b>	<b>X</b>
<b>Total 31/12/2016</b>	<b>380,377</b>	<b>48</b>	<b>380,328</b>	<b>85,211</b>	<b>124,057</b>	<b>X</b>	<b>171,060</b>



## 8. SECURITIES LENDING TRANSACTIONS

No information to report.

## 9. DISCLOSURES ON JOINT ARRANGEMENTS

No information to report.



## **PART C**

Information on the consolidated income statement



## SECTION 1 - INTEREST - ITEMS 10 AND 20

### 1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	31/12/2017	31/12/2016
1. Financial assets held for trading	913	-	-	913	4,008
2. Financial assets measured at fair value	240	-	-	240	443
3. Financial assets available for sale	15,530	-	-	15,530	35,296
4. Financial assets held to maturity	25,370	-	-	25,370	45,808
5. Due from banks	6,461	6,393	21	12,876	15,163
6. Loans to customers	2,041	365,313	-	367,354	384,170
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	107,545	107,545	66,393
<b>Total</b>	<b>50,555</b>	<b>371,706</b>	<b>107,566</b>	<b>529,827</b>	<b>551,281</b>

During the period, interest income recognized under loans to customers in respect of finance leases came to €188.6 million (€179 million at December 31, 2016). Negative indexing adjustments came to €17.2 million (€19.4 million in the previous year).

Other assets includes interest income on financial liabilities in the amount of €107.5 million, of which €48 million mainly in respect of operations with the Clearing and Guarantee Fund.

### 1.2 INTEREST AND SIMILAR INCOME: DIFFERENCES ON HEDGING TRANSACTIONS

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

### 1.3 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

#### 1.3.1 INTEREST INCOME ON FOREIGN-CURRENCY FINANCIAL ASSETS

	31/12/2017	31/12/2016
Interest income on foreign-currency financial assets	3,159	4,650

#### 1.3.2 INTEREST INCOME FROM FINANCE LEASES

See the information in the comments to table 1.1.

## 1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	31/12/2017	31/12/2016
1. Due to central banks	-	x	-	-	(3,657)
2. Due to banks	(7,015)	x	(243)	(7,258)	(15,588)
3. Due to customers	(11,427)	x	-	(11,427)	(17,807)
4. Securities issued	x	(105,138)	-	(105,138)	(118,630)
5. Financial liabilities held for trading	(3,572)	-	-	(3,572)	(565)
6. Financial liabilities measured at fair value	-	(121)	-	(121)	(6,215)
7. Other liabilities and provisions	x	x	(75,445)	(75,445)	(42,862)
8. Hedging derivatives	x	x	(7,044)	(7,044)	(1,321)
<b>Total</b>	<b>(22,013)</b>	<b>(105,259)</b>	<b>(82,732)</b>	<b>(210,004)</b>	<b>(206,642)</b>

The item Other liabilities and provisions includes interest expense on financial assets in the amount of €75 million, mainly in respect of collateralized loans with the mutual banks.

## 1.5 INTEREST AND SIMILAR EXPENSE: DIFFERENCES ON HEDGING TRANSACTIONS

	31/12/2017	31/12/2016
A. Positive differences on hedging transactions:	14,324	2,420
B. Negative differences on hedging transactions:	(21,368)	(3,741)
<b>C. Balance (A-B)</b>	<b>(7,044)</b>	<b>(1,321)</b>

## 1.6 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

### 1.6.1 INTEREST EXPENSE ON FOREIGN-CURRENCY LIABILITIES

	31/12/2017	31/12/2016
Interest expense on foreign-currency liabilities	(5,872)	(1,158)

### 1.6.2 INTEREST EXPENSE ON LIABILITIES IN RESPECT OF FINANCE LEASES

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

## SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

## 2.1 FEE AND COMMISSION INCOME: COMPOSITION

	31/12/2017	31/12/2016
<b>a) guarantees issued</b>	<b>2,016</b>	<b>2,484</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and advisory services:</b>	<b>171,561</b>	<b>135,456</b>
1. trading in financial instruments	6,610	8,082
2. foreign exchange	294	262
3. asset management	70,726	54,985
3.1 individual	1,577	1,339
3.2 collective	69,149	53,646
4. securities custody and administration	7,011	7,753
5. depository services	-	-
6. securities placement	2,236	2,894
7. order collection and transmission	2,027	1,537
8. advisory services	2,053	3,807
8.1 concerning investments	378	296
8.2 concerning financial structure	1,675	3,511
9. distribution of third-party services	80,603	56,135
9.1 asset management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	6,551	7,768
9.3 other	74,052	48,368
<b>d) collection and payment services</b>	<b>47,814</b>	<b>46,430</b>
<b>e) servicing activities for securitizations</b>	<b>420</b>	<b>117</b>
<b>f) services for factoring transactions</b>	<b>4,526</b>	<b>4,857</b>
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) holding and management of current accounts</b>	<b>8,175</b>	<b>8,150</b>
<b>j) other services</b>	<b>337,967</b>	<b>313,499</b>
<b>Total</b>	<b>572,478</b>	<b>510,993</b>

## 2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	31/12/2017	31/12/2016
<b>a) guarantees issued</b>	<b>(987)</b>	<b>(773)</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and advisory services:</b>	<b>(44,695)</b>	<b>(42,071)</b>
1. trading in financial instruments	(1,445)	(1,296)
2. foreign exchange	(73)	(80)
3. asset management	(37,280)	(33,937)
3.1 own portfolio	(37,280)	(33,937)
3.2 third party portfolio	-	-
4. securities custody and administration	(4,014)	(4,206)
5. securities placement	(1,883)	(2,552)
6. off-premises distribution of securities, products and services	-	-
<b>d) collection and payment services</b>	<b>(3,487)</b>	<b>(3,043)</b>
<b>e) other services</b>	<b>(305,574)</b>	<b>(272,304)</b>
<b>Total</b>	<b>(354,743)</b>	<b>(318,191)</b>

## SECTION 3 - DIVIDENDS AND SIMILAR REVENUES - ITEM 70

### 3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	31/12/2017		31/12/2016	
	Dividends	Income from units in collective investment undertakings	Dividends	Income from units in collective investment undertakings
a) financial assets held for trading	139	-	27	-
b) financial assets available for sale	1,913	-	1,908	-
c) financial assets measured at fair value	-	-	-	-
d) equity investments	0	x	-	x
<b>Total</b>	<b>2,053</b>	<b>-</b>	<b>1,935</b>	<b>-</b>

Dividends mainly refer to dividends on investments held in ICBPI, Cattolica Assicurazioni S.p.A, Intermonte SIM S.p.A. and SIA SSB S.p.A.



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

## 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)
<b>1. Financial assets held for trading</b>	<b>45</b>	<b>13,800</b>	<b>(209)</b>	<b>(2,594)</b>	<b>11,042</b>
1.1 Debt securities	35	12,638	(195)	(2,238)	10,239
1.2 Equity securities	10	995	(11)	(261)	732
1.3 Units in collective investment undertakings	0	97	(2)	(2)	93
1.4 Loans	-	-	-	-	-
1.5 Other	-	70	-	(92)	(22)
<b>2. Financial liabilities held for trading</b>	<b>79</b>	<b>-</b>	<b>(7)</b>	<b>-</b>	<b>72</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	79	-	(7)	-	72
2.3 Other	-	-	-	-	-
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>-</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>80,187</b>
<b>4. Derivatives</b>	<b>99,550</b>	<b>132,012</b>	<b>(80,416)</b>	<b>(151,727)</b>	<b>(76,208)</b>
4.1 Financial derivatives:	99,550	132,012	(80,416)	(151,727)	(76,208)
- on debt securities and interest rates	92,244	123,284	(77,491)	(140,439)	(2,403)
- on equity securities and equity indices	3,824	80	(11)	(4,838)	(945)
- on foreign currencies and gold	x	x	x	x	(75,626)
- other	3,482	8,648	(2,914)	(6,449)	2,766
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>99,673</b>	<b>145,811</b>	<b>(80,632)</b>	<b>(154,320)</b>	<b>15,093</b>

"Financial assets and liabilities: foreign exchange differences" reports, regardless of the original portfolio, the balance of changes in the value of financial assets and liabilities denominated in foreign currency, correlated with the amount under "Financial derivatives on foreign currencies and gold".

The amounts reported under 4.1 regard the income components of derivatives not connected with the fair value option.

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

## 5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	31/12/2017	31/12/2016
<b>A. Gains on:</b>		
A.1 Fair value hedges	12,941	7,994
A.2 Hedged financial assets (fair value)	9,648	37,395
A.3 Hedged financial liabilities (fair value)	648	2,233
A.4 Cash flow hedges	566	3,692
A.5 Assets and liabilities in foreign currencies	9,609	-
<b>Total income from hedging activities (A)</b>	<b>33,413</b>	<b>51,314</b>
<b>B. Loss on:</b>		
B.1 Fair value hedges	(10,240)	(38,331)
B.2 Hedged financial assets (fair value)	(7,979)	(8,353)
B.3 Hedged financial liabilities (fair value)	(5,342)	(582)
B.4 Cash flow hedges	(11,137)	(83)
B.5 Assets and liabilities in foreign currencies	-	(2,974)
<b>Total expense on hedging activities (B)</b>	<b>(34,697)</b>	<b>(50,322)</b>
<b>C. Net gain (loss) on hedging activities (A - B)</b>	<b>(1,285)</b>	<b>992</b>

The amounts regard the following transactions:

- hedges of fixed-rate and inflation-linked Italian government securities (BTPs) with asset swaps;
- hedges of 4 bonds issued by the Bank with interest rate swaps and interest rate options;
- hedges of 4 bonds issued by the Bank in US dollars with cross currency interest rate swaps;
- hedges of a fixed-rate lease portfolio with interest rate swaps;
- hedges of treasury deposits with overnight indexed swaps;
- hedges of cash flows on inflation-linked Italian government securities (BTPs);
- macro-hedges of portfolios of deposits with overnight indexed swaps;
- hedge of 1 corporate bond with asset swaps;
- hedge of 1 Banca IMI bond with an asset swap.

## SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE - ITEM 100

## 6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	31/12/2017			31/12/2016		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
<b>Financial assets</b>						
1. Due from banks	10	(1)	10	106	(45)	61
2. Loans to customers	1,241	(1,104)	137	2,489	(10,515)	(8,026)
<b>3. Financial assets available for sale</b>	<b>49,596</b>	<b>(18,012)</b>	<b>31,584</b>	<b>131,402</b>	<b>(48,008)</b>	<b>83,394</b>
3.1 Debt securities	38,386	(18,011)	20,375	85,001	(48,007)	36,994
3.2 Equity securities	10,213	-	10,213	46,391	-	46,391
3.3 Units in collective investment undertakings	996	(1)	996	10	(1)	9
3.4 Loans	-	-	-	-	-	-
<b>4. Financial assets held to maturity</b>	<b>73,532</b>	<b>(14)</b>	<b>73,519</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>124,379</b>	<b>(19,130)</b>	<b>105,249</b>	<b>133,997</b>	<b>(58,568)</b>	<b>75,429</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	1,538	(2,434)	(896)	501	(4,188)	(3,686)
<b>Total liabilities</b>	<b>1,538</b>	<b>(2,434)</b>	<b>(896)</b>	<b>501</b>	<b>(4,188)</b>	<b>(3,686)</b>

The item mainly comprises gains on the disposal of HTM financial assets in the amount of €73.5 million (zero in 2016) and net gains from the disposal of AFS securities of €31.6 million (€83.3 million in 2016, of which about €46 million attributable to the VISA disposal) carried out in implementation of the Group strategy to reduce the exposure to sovereign risk. It also includes losses on the repurchase of securities issued previously of €0.9 million (€3.7 million in 2016).

## SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE - ITEM 110

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

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
<b>1. Financial assets</b>	<b>1,072</b>	-	-	-	<b>1,072</b>
1.1 Debt securities	1,072	-	-	-	1,072
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	<b>14</b>	<b>178</b>	-	-	<b>192</b>
2.1 Debt securities	14	178	-	-	192
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	-
<b>4. Financial and credit derivatives</b>	-	-	-	-	-
<b>Total</b>	<b>1,086</b>	<b>178</b>	-	-	<b>1,264</b>

“Financial liabilities – Debt securities– Profits on realization” mainly reflect the financial impact of the redemption of structured bonds at FVTPL.

## SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT - ITEM 130

### 8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT OF LOANS: COMPOSITION

	Losses (1)			Recoveries (2)				31/12/2017	31/12/2016
	Specific			Specific					
	Writeoffs	Other	Portfolio	Specific		Portfolio			
				A	B	A	B		
<b>A. Due from banks</b>	-	-	-	-	-	-	-	-	
- Loans	-	-	-	-	-	-	-	-	
- Debt securities	-	-	-	-	-	-	-	-	
<b>B. Loans to customers</b>	-	-	-	-	-	-	<b>(146,325)</b>	<b>(141,803)</b>	
Impaired receivables acquired	-	-	-	-	-	-	-	(626)	
- Loans	-	-	X	-	-	X	X	(626)	
- Debt securities	-	-	X	-	-	X	X	-	
Other receivables	-	-	-	-	-	-	-	(141,177)	
- Loans	(117,565)	(234,962)	(2,990)	25,879	171,401	1,358	11,124	(145,754)	
- Debt securities	(374)	(197)	-	-	-	-	-	(571)	
<b>C. Total</b>	<b>(117,939)</b>	<b>(235,159)</b>	<b>(2,990)</b>	<b>25,879</b>	<b>171,401</b>	<b>1,358</b>	<b>11,124</b>	<b>(146,325)</b>	

Key

A= recoveries from interest

B= other recoveries

Total net losses on loans amounted to €146.3 million. The cost of credit risk in 2017 was essentially unchanged on previous years.

### 8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	Losses (1)		Recoveries (2)		31/12/2017	31/12/2016
	Specific		Specific			
	Writeoffs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(1,171)	-	-	(1,171)	(3,802)
C. Units in collective investment undertakings	-	(22,897)	x	x	(22,897)	(9,711)
D. Due from banks	-	-	x	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>(24,068)</b>	<b>-</b>	<b>-</b>	<b>(24,068)</b>	<b>(13,513)</b>

Key

A= recoveries from interest

B= other recoveries

The amount for CIUs refers to units in Fondo Atlante (€22.8 million). The figures for equity securities refer to the interest in BCC Friuli Venezia Giulia.

### 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

	Losses (1)			Recoveries (2)				31/12/2017	31/12/2016
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees issued	-	(18)	(5,344)	-	-	-	-	(5,362)	(1,038)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse	-	-	-	-	-	-	-	-	-
D. Other transactions	(20)	(1,853)	-	-	4	-	(36)	(1,905)	(2,618)
<b>E. Total</b>	<b>(20)</b>	<b>(1,871)</b>	<b>(5,344)</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>(36)</b>	<b>(7,268)</b>	<b>(3,656)</b>

Key

A= recoveries from interest

B= other recoveries

“Losses” reports amounts associated with the mutual bank deposit guarantee fund for the division and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

**SECTION 9 - NET PREMIUMS - ITEM 150**

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

**SECTION 10 - NET OTHER INCOME (EXPENSE) FROM INSURANCE ACTIVITIES - ITEM 160**

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

## SECTION 11 - ADMINISTRATIVE EXPENSES - ITEM 180

## 11.1 PERSONNEL EXPENSES: COMPOSITION

	31/12/2017	31/12/2016
<b>1) Employees</b>	<b>(182,909)</b>	<b>(207,823)</b>
a) wages and salaries	(127,641)	(122,226)
b) social security contributions	(35,034)	(33,021)
c) termination benefits	(1,548)	(2,106)
d) pensions	-	(59)
e) allocation to employee termination benefit provision	(1,283)	(1,493)
f) allocation to provision for retirement and similar liabilities:	-	(75)
- defined contribution	-	-
- defined benefit	-	(75)
g) payments to external pension funds:	(10,654)	(11,953)
- defined contribution	(10,607)	(10,488)
- defined benefit	(47)	(1,465)
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(6,749)	(36,897)
<b>2) Other personnel</b>	<b>(1,964)</b>	<b>(3,058)</b>
<b>3) Board of Directors and members of Board of Auditors</b>	<b>(4,438)</b>	<b>(4,965)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(189,310)</b>	<b>(215,845)</b>

The net decrease in personnel expense over the previous period mainly reflects costs for the solidarity fund, which was provisioned in 2016 and recognized under other employee benefits in the non-recurring amount of €26 million in 2017.

## 11.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY: BANKING GROUP

	31/12/2017
<b>Employees:</b>	<b>2,418</b>
a) senior management	63
b) middle management	964
c) other employees	1,390
<b>Other personnel</b>	<b>41</b>



### 11.3 DEFINED-BENEFIT COMPANY PENSION PLANS: TOTAL COSTS AND REVENUES

The “allocation to provision for retirement and similar liabilities” was reclassified to other employee benefits.

### 11.4 OTHER EMPLOYEE BENEFITS

	<b>31/12/2017</b>
- termination incentives and income support fund	405
- lunch vouchers	(2,530)
- insurance policies	(931)
- medical care	-
- other benefits	(3,693)
<b>Total</b>	<b>(6,749)</b>

## 11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	31/12/2017	31/12/2016
<b>Information technology</b>	<b>(116,852)</b>	<b>(103,663)</b>
<b>Property and movables</b>	<b>(15,940)</b>	<b>(12,516)</b>
- rental and fees	(9,722)	(6,808)
- ordinary maintenance	(5,639)	(4,948)
- security	(579)	(760)
<b>Goods and services</b>	<b>(31,150)</b>	<b>(31,843)</b>
- telephone and data transmission	(13,749)	(13,182)
- postal	(5,987)	(6,787)
- asset transport and counting	(1,277)	(2,090)
- electricity, heating and water	(3,237)	(3,318)
- transportation and travel	(5,940)	(5,188)
- office supplies and printed materials	(734)	(1,123)
- subscriptions, magazines and newspapers	(226)	(155)
<b>Professional services</b>	<b>(45,770)</b>	<b>(55,577)</b>
- professional fees (other than audit fees)	(17,624)	(28,470)
- audit fees	(1,083)	(1,164)
- legal and notary costs	(8,065)	(9,614)
- court costs, information and title searches	(1,746)	(1,475)
- insurance	(1,698)	(1,834)
- administrative services	(15,554)	(13,020)
<b>Promotional, advertising and entertainment expenses</b>	<b>(9,123)</b>	<b>(8,031)</b>
<b>Association dues</b>	<b>(6,513)</b>	<b>(6,513)</b>
<b>Donations</b>	<b>(15)</b>	<b>(20)</b>
<b>Other</b>	<b>(27,262)</b>	<b>(8,969)</b>
<b>Indirect taxes and duties</b>	<b>(46,122)</b>	<b>(92,720)</b>
- stamp duty	(18,639)	(18,551)
- long-term loan tax - Pres. Decree 601/73	(239)	(286)
- municipal property tax	(1,620)	(1,517)
- financial transaction tax	(19)	(9)
- other indirect taxes and duties	(25,605)	(72,357)
<b>Total</b>	<b>(298,747)</b>	<b>(319,852)</b>

Other administrative expenses came to €298.7 million, down by €21.1 million compared with the previous year.

The amount in 2017 includes the ordinary contribution to the National Resolution Fund (BRRD) totaling €23 million, costs for the project to establish the Mutual Banking Group of about €20 million, and costs to upgrade processes and procedures to ensure compliance with major regulatory changes (notably IFRS 9 and Mifid2). At December 31, 2016 the contribution to the BRRD, including the extraordinary component, totaled €69.4 million.

Pursuant to Article 2427, paragraph 16-bis of the Italian Civil Code, we set out below the fees paid in 2017 to the audit firm Ernst&Young (and its network) by Iccrea and the Iccrea Group companies::

- statutory audit of the annual accounts (including the auditing of the interim financial statements) for €869 thousand;
- other audit-related services (translations, EMTN, TLTRO program, certification of tax returns, opinion under Article 2437 of the Civil Code) for €212 thousand;
- other non-audit services for €2.5 million, which regard technical and methodological assistance on issues regarding the formation of the Mutual Banking Group.

These amounts are shown net of VAT, Consob fees and expenses.

## SECTION 12 - NET PROVISIONS FOR RISKS AND CHARGES - ITEM 190

### 12.1 NET PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	31/12/2017	31/12/2016
- Provisions for damages and revocatory actions in bankruptcy	-	-
- Provisions for litigation	(1,747)	(4,305)
- Provisions for other risks and charges	(2,120)	(3,094)
- Use of provisions for damages and revocatory actions in bankruptcy	4,508	-
- Use of provisions for litigation	2,032	714
- Use of provisions for other risks and charges	100	-
<b>Total</b>	<b>2,773</b>	<b>(6,685)</b>

The “provisions for damages and revocatory actions in bankruptcy” reflect the adjustment of the provision for the “Giacomelli Sport” revocatory action, which involves Iccrea Banca as leader of the lender pool.

The “provisions for other risks and charges” include the adjustment of the provision for contingent liabilities associated with former tenants of buildings sold after the lease contracts had been terminated.

**SECTION 13 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT - ITEM 200****13.1. NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION**

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustment (a + b - c)
<b>A. Property and equipment</b>				
<b>A.1 owned</b>	<b>(13,958)</b>	<b>(123)</b>	-	<b>(14,081)</b>
- operating assets	(13,958)	(123)	-	(14,081)
- investment property	-	-	-	-
<b>A.2 acquired under finance leases</b>	<b>(4,962)</b>	-	-	<b>(4,962)</b>
- operating assets	(4,962)	-	-	(4,962)
- investment property	-	-	-	-
<b>Total</b>	<b>(18,920)</b>	<b>(123)</b>	-	<b>(19,043)</b>

The writedowns for impairment regard the writedown of the carrying amount of assets returned from finance leases.

## SECTION 14 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 210

## 14.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
<b>A. Intangible assets</b>				
<b>A.1 owned</b>	<b>(10,993)</b>	-	-	<b>(10,993)</b>
- generated internally by the Group	(1,250)	-	-	(1,250)
- other	(9,743)	-	-	(9,743)
<b>A.2 Acquired under finance leases</b>	-	-	-	-
<b>Total</b>	<b>(10,993)</b>	-	-	<b>(10,993)</b>

## SECTION 15 - OTHER OPERATING EXPENSES/INCOME - ITEM 220

### 15.1 OTHER OPERATING EXPENSES: COMPOSITION

	31/12/2017	31/12/2016
- Reductions in assets not attributable to separate line item	-	-
- Prior-year expenses not attributable to separate line item	(197)	(124)
- Robbery and theft	-	-
- Amortization of expenditure for leasehold improvements	(177)	(166)
- Settlement of disputes and claims	-	-
- Other expenses	(38,280)	(36,979)
- Consolidation adjustments	(5,993)	(7,191)
<b>Total</b>	<b>(44,647)</b>	<b>(44,460)</b>

“Other expenses” include charges connected with leasing services of €29.1 million (advisory, insurance, other taxes and duties). In addition, they also include the charge for the liability in respect of relationships with former tenants undergoing insolvency proceedings following the termination and sale of the buildings.

### 15.2 OTHER OPERATING INCOME: COMPOSITION

	31/12/2017	31/12/2016
- Reductions in liabilities not attributable to separate line item	377	57
- Prior-year income not attributable to separate line item	1,180	1,035
- Property rental income	229	136
- Recovery of taxes and duties	15,904	15,757
- Recovery of sundry charges	9,525	6,699
- Other income	111,837	116,487
- Consolidation adjustments	-	-
<b>Total</b>	<b>139,052</b>	<b>140,171</b>

The recovery of taxes and duties mainly regard current accounts savings passbooks and medium/long-term loans.

“Other income” includes:

- income from finance lease operations totaling €21.3 million;
- income from the invoicing of IT outsourcing services in the amount of €65 million by the subsidiary BCC Sistemi Informatici S.p.A.

## SECTION 16 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 240

## 16.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	31/12/2017	31/12/2016
<b>1) Joint ventures</b>		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses		
1. Writedowns		
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
<b>Net profit (loss)</b>	<b>-</b>	<b>-</b>
<b>2) Entities under significant influence</b>		
A. Gains	5,836	5,661
1. Revaluations	5,836	5,661
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	(1,584)	(1,215)
1. Writedowns	(1,584)	(1,215)
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
<b>Net profit (loss)</b>	<b>4,252</b>	<b>4,445</b>
<b>Total</b>	<b>4,252</b>	<b>4,445</b>

The item reports the financial impact of the equity measurement of investments in associates.

## SECTION 17 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 250

### 17.1 NET ADJUSTMENT TO FAIR VALUE (OR REVALUED AMOUNT) OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS: COMPOSITION

	Revaluations (a)	Writedowns (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
<b>A. Property and equipment</b>					
A.1 owned:	-	(22,171)	-	-	(22,171)
- operating assets	-	-	-	-	-)
- investment property	-	(22,171)	-	-	(22,171)
A.2 acquired under finance leases:	-	-	-	-	-
- operating assets	-	-	-	-	-
- investment property	-	-	-	-	-
<b>B. Intangible assets</b>					
B.1 owned:	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 acquired under finance leases	-	-	-	-	-
<b>Total</b>	-	<b>(22,171)</b>	-	-	<b>(22,171)</b>



**SECTION 18 - GOODWILL IMPAIRMENT - ITEM 260**

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

**SECTION 19 - GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS - ITEM 270**

	31/12/2017	31/12/2016
<b>A. Property</b>	<b>(255)</b>	<b>(19)</b>
- gains	11	7
- losses	(266)	(26)
<b>B. Other assets</b>	<b>5,520</b>	<b>-</b>
- gains	5,520	-
- losses	-	-
<b>Net gain (loss)</b>	<b>4,995</b>	<b>(19)</b>

The gains and losses reported here regard the sale of non-current assets in respect of debt collection acquired by Banca Sviluppo S.p.A. from the former mutual banks.

## SECTION 20 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

### - ITEM 290

#### 20.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	31/12/2017	31/12/2016
1. Current taxes (-)	(7,637)	(6,919)
2. Changes in current taxes from previous periods (+/-)	697	2,779
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 (+/-)	(5,849)	22,263
5. Change in deferred tax liabilities (+/-)	1,664	1,530
<b>6. Income taxes for the period (-)</b> (-1+/-2+3+3 bis+/-4+/-5)	<b>(11,125)</b>	<b>19,654</b>

## 20.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

	31/12/2017		
	TAXABLE INCOME	TAX	TAX RATE (%)
<b>A) Profit (loss) before tax (item 280 of the income statement):</b>	<b>46,629</b>	<b>(11,768)</b>	<b>27,50</b>
- Temporary differences taxable in subsequent periods	(55)	16	
- Temporary differences deductible in subsequent periods	13,159	(3,412)	
- Reversal of taxable temporary differences of previous periods	4,305	(1,034)	
- Reversal of deductible temporary differences of previous periods	(30,551)	8,036	
- Permanent taxable differences	19,740	(5,075)	
- Permanent deductible differences	(50,071)	11,920	
<b>B) IRES - actual tax liability</b>	<b>3,156</b>	<b>(1,316)</b>	
<b>C) IRAP* - theoretical tax liability with application of nominal rate to value of production:</b>	<b>282,365</b>	<b>(15,241)</b>	
- Temporary differences taxable in subsequent periods	(55)	3	
- Temporary differences deductible in subsequent periods	182	(8)	
- Reversal of taxable temporary differences of previous periods	-	-	
- Reversal of deductible temporary differences of previous periods	(1,512)	74	
- Permanent taxable differences	32,396	(1,723)	
- Permanent deductible differences	(197,496)	10,574	
<b>D) IRAP - actual tax liability</b>	<b>115,880</b>	<b>(6,321)</b>	
<b>Total current taxes</b>		<b>(7,637)</b>	

\*The IRAP figure was calculated by applying the rates in force in the regions in which each company has its registered office and, for those that operate in more than one region, by taking the taxable amount and distributing it among the regions involved in proportion to the number of employees.

## **SECTION 21 - PROFIT (LOSS) AFTER TAX FROM DISPOSAL GROUPS - ITEM 310**

### **21.1 PROFIT (LOSS) AFTER TAX FROM DISPOSAL GROUPS: COMPOSITION**

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

### **21.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE**

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

## SECTION 22 - NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 330

### 22.1 BREAKDOWN OF ITEM 330 "PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS"

	31/12/2017	31/12/2016
<b>Consolidated equity investments with significant non-controlling interests</b>	<b>6,255</b>	<b>2,768</b>
1. Bcc Risparmio & Previdenza S.G.R.p.A.	4,520	2,013
2. Bcc Sistemi Informatici S.p.A.	-	-
3. Bcc Credito Consumo	428	395
4. Bcc Gestione Crediti	1,307	360
Other equity investments	(108)	(394)
<b>Total</b>	<b>6,147</b>	<b>2,374</b>

## SECTION 23 - OTHER INFORMATION

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

## SECTION 24 –EARNINGS PER SHARE

The ordinary shares of the Parent Company, Iccrea Holding S.p.A., are not traded on a public market and the company not file its financial statements with CONSOB in order to issue ordinary shares on a public market. Accordingly, IAS 33 does not apply.

### 24.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

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

### 24.2 OTHER INFORMATION

No further information to report.



## **PART D**

### Comprehensive income





## DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

	Gross amount	Income taxes	Net amount
<b>10. Net profit (loss) for the period</b>	<b>X</b>	<b>X</b>	<b>35,504</b>
<b>Other comprehensive income not recyclable to profit or loss:</b>	-	-	-
<b>20. Property and equipment</b>	-	-	-
<b>30. Intangible assets</b>	-	-	-
<b>40. Defined-benefit plans</b>	<b>34</b>	<b>(16)</b>	<b>19</b>
<b>50. Non-current assets held for sale</b>	-	-	-
<b>60. Valuation reserves of equity investments accounted for with equity method</b>	-	-	-
<b>Other comprehensive income recyclable to profit or loss:</b>	-	-	-
<b>70. Hedging of investments in foreign operations</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
c) other changes	-	-	-
<b>80. Foreign exchange differences:</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
c) other changes	-	-	-
<b>90. Cash flow hedges:</b>	<b>1,981</b>	<b>(655)</b>	<b>1,326</b>
a) fair value changes	(5,481)	1,812	(3,668)
b) reversal to income statement	7,462	(2,468)	4,994
c) other changes	-	-	-
<b>100. Financial assets held for sale:</b>	<b>(1,511)</b>	<b>(19)</b>	<b>(1,530)</b>
a) fair value changes	11,383	(3,112)	8,271
b) reversal to income statement	(13,126)	3,092	(10,034)
- impairment adjustments	-	-	-
- gain/loss on realization	(13,126)	3,092	(10,034)
c) other changes	232	-	232
<b>110. Non-current assets held for sale:</b>	-	-	-
a) fair value changes	-	-	-
b) reversal to income statement	-	-	-
c) other changes	-	-	-
<b>120. Valuation reserves of equity investments accounted for with equity method</b>	<b>(127)</b>	<b>38</b>	<b>(88)</b>
a) fair value changes	(127)	38	(88)
b) reversal to income statement	-	-	-
- impairment adjustments	-	-	-
- gain/loss on realization	-	-	-
c) other changes	-	-	-
<b>130. Total other comprehensive income</b>	<b>378</b>	<b>(652)</b>	<b>(274)</b>
<b>140. Comprehensive income (item 10+130)</b>	<b>378</b>	-	<b>35,230</b>
<b>150. Consolidated comprehensive income pertaining to non-controlling interests</b>	<b>x</b>	<b>x</b>	<b>6,153</b>
<b>160. Consolidated comprehensive income pertaining to shareholders of the Parent Company</b>	<b>x</b>	<b>x</b>	<b>29,077</b>



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## **PART E**

Risk and risk  
management policies



## SECTION 1 – RISKS OF THE BANKING GROUP

### INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

### ORGANIZATION OF RISK MANAGEMENT

#### - ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

The risk management function is based on the CRO area, which is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance for risk management model takes account of the company structure of the Group, the specialization of business segments within the company structure, the executive effectiveness of the centralized governance approach, the complexity and impact on corporate operations of the functional areas included in the CRO area, compliance with applicable prudential regulations, the effectiveness of second-level controls in relation to management requirements and the applicable regulatory context.

#### - STRUCTURE OF THE CRO AREA

During 2017, consistent with developments in the corporate governance project and with a view to implementing the organizational measures associated with the adoption of a governance model for the Risk Management function centralized within the CRO area of the Parent Company, for all of the Group's banks and financial companies, an evolutionary reorganization of the Group Risk Management department was completed. The reorganization was carried out in such a way so as to ensure that the individual Risk Management units in the various companies continue to report directly to the boards of directors of each subsidiary.

In this context and in consideration of the needs that have arisen in relation to the implementing measures associated with the reform of the mutual banking system, the main lines of development underpinning that reorganization concerned:

- the transformation of the Parent Company into a bank through the merger of Iccrea Holding and Iccrea Banca, which from a forward-looking perspective made it necessary to structure strong credit risk management arrangements within the Parent Company, which had already existed at the Group level but were organizationally distributed among the subsidiaries whose core business was lending;
- the start of work on the project to create the new Mutual Banking Group (MBG), with the significant involvement of the Risk Management department, giving rise to:
  - the need to implement an organizational structure to support the planning activity itself, with the incorporation of targeted organizational development measures, with a view to streamlining arrangements;
  - the need to create the conditions for the multi-tasking phase of the project, making it essential to introduce greater organizational flexibility in order to maximize the individual contribution of the senior staff of the unit;
  - the need to ensure that organizational evolution was temporary, designed to remain in place for a period limited to some 12-18 months: the organizational structure and the internal organization (roles and responsibilities of personnel) of the Risk Management function of the new Mutual Banking Group will only be determined at the end of the project;
  - the need to implement an organizational structure capable of ensure the continuity of the existing Group while the new Mutual Banking Group is being created in order to ensure constant, efficient and effective operation. A special emphasis was placed on relations with the supervisory authorities, which in the transition phase will certainly focus specific attention on the continuing compliance of the Iccrea Banking Group with regulatory requirements while the project is being developed and on the requirements for the formation and authorization of the new MBG;

- the desire to retain the governance arrangements of the CRO area, with functional responsibility centralized with the Parent Company and the distribution of local units with the subsidiaries and the need to maximize the contribution of all senior staff, including those who joined the Group most recently.

Bearing in mind the foregoing, the reorganization of the Risk Management function involved the following organizational measures:

- the retention of functional responsibility for the Risk Management function with the Parent Company. More specifically the Risk Manager position at the Parent Company was assigned to the CRO, while at the individual companies that role is filled by the Heads of the Risk Management units of the subsidiaries, who continue to report functionally to the CRO area, consistent with the operational characteristics of those companies, and to the Board of the subsidiary to which they belong;
- the shifting of the Bank Risk unit to reporting directly to the CRO, as a natural development of risk management arrangements in order to strengthen the reform project under way;
- the rationalization of the risk management arrangements of Iccrea Bancalmpresa, which continues to report functionally to the Credit Risk Management unit of Iccrea Banca, which is in turn organized into two units:
  - Models and Risk Policy;
  - Risk Analysis and Monitoring.
- the creation of a specific unit for operating continuity with the assignment of the functional role of BCMS.

Following the above reorganization, the CRO area is structured into five units:

- Risk Integration & Capital Adequacy;
- Bank Risk;
- Financial Risk Management;
- Credit Risk Management;
- Operational & IT Risk Management.

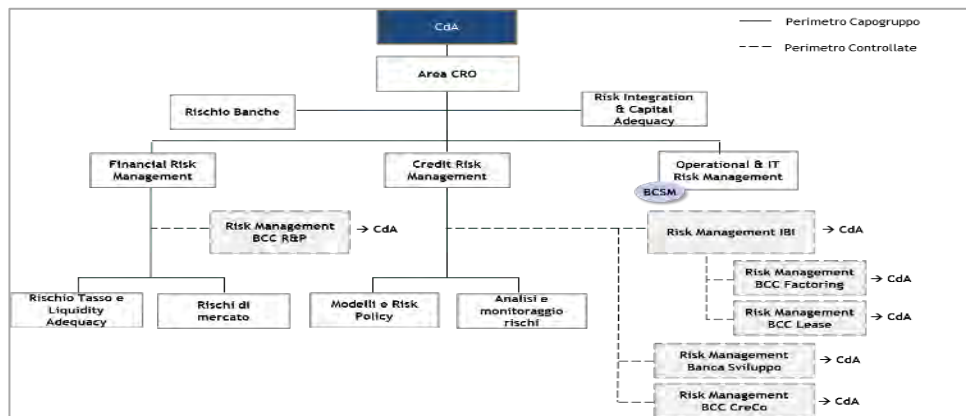
Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the CRO area on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business.

More specifically:

- the Risk Management units of the subsidiaries report functionally to:
  - the Credit Risk Management unit of the Parent Company for Iccrea Bancalmpresa SpA, Banca Sviluppo SpA, BCC Credito Consumo SpA;
  - the Financial Risk Management unit of the Parent Company for BCC Risparmio e Previdenza SGRpA;
  - the Risk Management unit of Iccrea Bancalmpresa for BCC Factoring and BCC Lease.

The Operational & IT Risk Management unit operates as a specialized hub for the entire Group, with responsibility for providing guidance and technical support to the risk management units of all Group companies in the area of operational and IT risks.

The following chart sets out the organizational structure of the new CRO area as at December 31, 2017.



*MAIN DUTIES OF THE CRO AREA*

The responsibilities of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, developing proposals for the Risk Appetite Framework and its operational manifestation (Risk Appetite Statement), monitoring developments in the exposure to the different types of risk and monitoring capital requirements and prudential ratios on a current and prospective basis in relation to the targets defined by the Risk Appetite Statement and the supervisory authorities.

In supporting the operations of the Iccrea Banking Group, the CRO area:

- participates in the definition and development of the framework for the assumption and management of the risks for which it is responsible, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP;
  - consists of organizational structures and corporate processes (operating, administrative and business), including line controls, supporting applications, risk governance policies (policies, limits, responsibilities), methodologies and risk measurement and assessment criteria;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:
  - develops risk measurement and assessment methods and models;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;
  - identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
  - identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group’s liquidity profile (ILAAP);

- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

#### *THE RISK CULTURE*

The ICCREA Banking Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Iccrea Banking Group. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

#### *RISK MANAGEMENT STRATEGIES AND PROCESSES*

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- Risk identification (knowledge): this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
- Assessment/measurement of the identified risks (awareness): this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).
- Risk prevention and attenuation (strategy): this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible



approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.

- **Monitoring and reporting (tracking and control):** this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).
- **Risk management and mitigation (reaction and proactivity):** this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

## A. 1.1 CREDIT RISK

### QUALITATIVE DISCLOSURES

#### A. General aspects

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

#### B. Credit risk management policies

##### ORGANIZATIONAL ASPECTS

To ensure interaction among all the units and bodies with control and monitoring duties, the Iccrea Group has introduced the following criteria within its organization that characterize the entire credit function:

- processing of loan applications, leading to the formulation of a loan proposal;
- approval of the loan application;
- management of position: this comprises all of the activities involved in monitoring and managing outstanding loans.

In view of the multiple units within the individual Group companies that are responsible for managing credit risk, the management process is based on the following principles:

- attribution of the responsibilities of the body with strategic oversight functions and the body with management functions in the definition, implementation and supervision of the credit governance system and the associated credit risk management processes;
- independence of control functions, with clear separation of responsibilities and elimination of conflicts of interest between control units and business units;
- attribution of responsibilities to all organizational levels, designed to ensure the effective implementation of strategies and governance of the credit and credit risk management system, minimizing organizational inefficiencies.

The credit risk management process is implemented at the operational level in line with the business model that characterizes the internal organization of the Iccrea Group, specifically adopted in relation to the various categories of counterparties with which the Group operates.

#### *MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS*

##### *- IDENTIFICATION OF RISKS*

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized in the financial statements.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of the Banking Group are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

##### *- MEASUREMENT AND ASSESSMENT OF RISKS*

For the purpose of calculating prudential requirements for credit risk, the Iccrea Banking Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the CRO area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;
- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control units of the Group companies to agree methodological issues where appropriate.

##### *- RISK PREVENTION AND ATTENUATION*

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the following business lines:

- *Corporate*: the integration between the rating model and the front-end system permits extensive automation of the application assessment process and of the approval of operations (electronic loan decision), while at the same time permitting control to be maintained over the process, data quality and the use of delegated powers (tracking every decision/change) The entire segment is governed by comprehensive rules set out in the Credit Handbook;
- *Financial Institutions*: the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.;
- *Retail*: first-level controls are structured into a series of activities performed on an ongoing basis by the branch of the mutual bank proposing the transaction in its capacity as the manager of the credit relationship with the customer, with verification carried out at the territorial level. Loan applications received via electronic channels are checked to ensure the accuracy of the information using the following controls:
  - automated check of correspondence between tax ID number and other personal data of borrowers;
  - automated check of ID documents to ensure they have not been stolen or lost, including through a direct connection with the website of the State Police;
  - possible direct telephone contacts at the customer's home or workplace.

The operating limits defined in the lending process are automatically controlled by the IT system by assigning specific user codes enabled on the basis of the user's category.

#### - MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the function.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

For the Corporate business line, operational monitoring involves:

- aggregate analysis and analysis of developments in the overall configuration and risk of the loan portfolio;
- specific analysis through the qualitative monitoring of individual positions. This approach is based on advanced management/operational monitoring of loans, which on the basis of mass analysis of developments supplemented with all other codified information available at the company level, seeks to construct, with the contribution of the various position managers and analysts involved, an overall picture of the situation of the borrower to provide support for the decisions regarding actions to take with regard to the customer concerned.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

For the Retail business line, monitoring of individual loans is conducted, within the scope of collection activities, through the daily observation of past due positions as from the first unpaid instalment, using a classification based on the seriousness of the situation (sound positions, sensitive positions, doubtful positions in collection, doubtful positions in litigation), which is managed using automated procedures in the IT system. The monitoring of credit risk also considers “connected” exposures, i.e. exposures that are not classified as positions in collection or in litigation but are connected with customers who have other positions in collection or in litigation. In addition, periodic monitoring has been introduced for all personal loans that, while not having unpaid instalments, have experienced repeated instances of resubmission of direct debit (RID/SDD) requests.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

#### *RISK MANAGEMENT AND MITIGATION*

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage doubtful positions, i.e. positions that have been judged unlikely to fully discharge their credit obligations to the Group;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- clear and timely escalation mechanisms accompanied by actions to be taken in the event the limits specified in the risk policies are breached.

#### *IMPAIRED FINANCIAL ASSETS*

##### *- PROCEDURES FOR CLASSIFYING ASSETS BY DEBTOR QUALITY*

The Group is equipped with regulatory/IT structures and procedures for loan management, classification and control.

In line with the provisions of the IASs/IFRSs, at every reporting date the presence of objective evidence of impairment is assessed for every instrument or group of financial instruments.

Objective evidence of the impairment of a financial asset or group of financial assets consists of observable data regarding the following events:

- significant financial difficulties of the debtor;
- breach of contractual agreements, such as default or delinquency in paying interest or principal;
- the lender, for economic or legal reasons associated with the borrower’s financial difficulties, grants the debtor concessions that the lender would not otherwise have considered;
- a high probability of the debtor’s entering bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset as a result of the debtor’s financial difficulties (a case not relevant for the current types of loans to banks/customers);
- the existence of evidence indicating a quantifiable decrease in estimated future cash flows for a group of assets, after initial recognition, even if such decrease cannot yet be ascribed to the individual position:
  - a reduction in the debtor’s ability to discharge its liability in respect of the group of assets it holds;
  - international, national or local conditions that could give rise to default in respect of a group of receivables.

The above assessment is conducted with the support of special IT screening procedures on the basis of information from internal and external sources.

Within the scope of testing for the existence of objective evidence of impairment, non-performing loans are classified in the following categories:

- bad debts: loans to borrowers in a state of insolvency (even if bankruptcy has not been declared by a court) or in substantially equivalent situations, regardless of any expectations of loss formulated by the company;
- positions unlikely to be repaid: credit exposures other than bad debts to borrowers that the Bank believes are unlikely to discharge their credit obligations in full (principal and/or interest) without recourse to actions such as enforcement of guarantees;
- impaired past due/overlimit exposures: exposures other than bad debts or positions likely to be unpaid that as of the reporting date are past due/overlimit by more than 90 days and exceed a specified materiality threshold.

#### *- FORBORNE EXPOSURES*

An additional classification is made for credit exposures that have been granted some form of forbearance, which are divided into:

- non-performing exposures with forbearance measures: depending on the circumstances, these represent a subset of bad debts, positions unlikely to be repaid or impaired past due/overlimit exposures; they do not represent a separate category of impaired assets;
- other exposures with forbearance measures, which correspond to forborne performing exposures and are therefore classified under performing exposures.

#### *- FACTORS ENABLING RECLASSIFICATION OF IMPAIRED EXPOSURES TO PERFORMING STATUS*

Only the return to full solvency of the debtor permits restoration of performing status. This comprises:

- elimination of the entire exposure or repayment of arrears;
- regularization of the exposure.

#### *- ASSESSMENT OF THE ADEQUACY OF WRITEDOWNS*

Loans are recognized at estimated realizable value. This value is obtained by deducting specific and general writedowns of principal and interest, net of any repayments, from the total amount disbursed.

Calculation of expected loss is based on analytical and statistical methodologies. The latter are used for personal loans classified as bad debts and for calculating normal risk.

The analytical assessment of non-performing positions is based on standard criteria approved by the Board of Directors that incorporate prudential assessments of any guarantees securing repayment.

In particular, impaired exposures are analytically evaluated on the basis of:

- forecast of future recovery of the credit position – with the exclusion of future losses that have not yet emerged – using different procedures depending on the type of loan:
  - for personal loans classified as bad debts the recovery forecast is determined using a statistical method based on stratification based on the age of the position, considering amounts collected and losses on past cases from which, with appropriate calculations, an estimated loss percentage can be determined for application to the entire existing portfolio;
  - for other loans, general writedowns based on statistical techniques that, using the values calculated for rates of default and non-recoverability, contribute to the calculation of a prudential coverage ratio;
  - recovery times;

- expected realization of any guarantees, taking account of estimated collection/liquidation expenses, which must be incorporated into the expected future cash flows.

The writedown is recognized in the income statement as the difference between the initial carrying amount of the asset and the present value of the estimated recoverable cash flows, discounted at the original effective interest rate of the financial asset at the moment of classification as non-performing.

The original value of the receivable is written back in subsequent years if the reasons for the writedown no longer obtain.

## QUANTITATIVE DISCLOSURES

### A. CREDIT QUALITY

#### A.1 IMPAIRED AND UNIMPAIRED EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

##### A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	31/12/2017
1. Financial assets available for sale	-	-	-	-	3,019,142	3,019,142
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	16	-	17,875,743	17,875,759
4. Loans to customers	575,079	706,680	50,017	278,737	13,246,366	14,856,879
5. Financial assets at fair value	-	-	-	-	15,630	15,630
6. Financial assets held for sale	5,554	8,666	2,363	17,976	179,787	214,347
<b>Total</b>	<b>580,633</b>	<b>715,346</b>	<b>52,396</b>	<b>296,714</b>	<b>34,336,668</b>	<b>35,981,757</b>

##### DISTRIBUTION OF UNIMPAIRED PAST-DUE CREDIT EXPOSURES BY PORTFOLIO AND TIME PAST DUE (NET VALUES)

Loans to customers	Up to 3 months	From more than 3 months to 6 months	From more than 6 months to 1 year	More than 1 year
d) Unimpaired past-due exposures	220,693	66,727	6,525	2,768
- of which: forborne exposures	19,797	2,822	119	-

The value of assets past due by more than 90 days regard loans that do not meet the conditions for classification as impaired past-due exposures (below the 5% materiality threshold).



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

	Impaired assets			Unimpaired assets			31/12/2017 (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Specific adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	3,019,142	-	3,019,142	3,019,142
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	56	(41)	16	17,875,743	(1)	17,875,743	17,875,759
4. Loans to customers	2,510,664	(1,178,888)	1,331,776	13,614,207	(89,104)	13,525,103	14,856,879
5. Financial assets at fair value	-	-	-	X	X	15,630	15,630
6. Financial assets held for sale	32,464	(15,881)	16,583	202,685	(4,922)	197,764	214,347
<b>Total</b>	<b>2,543,184</b>	<b>(1,194,810)</b>	<b>1,348,375</b>	<b>34,711,777</b>	<b>(94,026)</b>	<b>34,633,382</b>	<b>35,981,757</b>

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	6,477	8	296,163
2. Hedging derivatives	-	-	6,716
<b>Total</b>	<b>6,477</b>	<b>8</b>	<b>302,879</b>

### A.1.3 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS VALUES, NET VALUES AND TIME PAST DUE

	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure 31/12/2017
	Impaired assets				Unimpaired assets			
	Up to 3 months	From more than 3 months to 6 months	From more than 6 months to 1 year	More than 1 year				
<b>A. ON-BALANCE-SHEET EXPOSURES</b>								
a) Bad debts	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to be repaid	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Impaired past due exposures	-	-	-	56	X	41	X	16
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other unimpaired assets	X	X	X	X	17,924,463	X	1	17,924,463
- of which: forborne exposures	X	X	X	X	-	X	-	-
<b>Total A</b>	-	-	-	<b>56</b>	<b>17,924,463</b>	<b>41</b>	<b>1</b>	<b>17,924,479</b>
<b>B. OFF-BALANCE-SHEET EXPOSURES</b>								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	312,280	X	-	312,280
<b>Total B</b>	-	-	-	-	<b>312,280</b>	-	-	<b>312,280</b>
<b>TOTAL (A+B)</b>	-	-	-	<b>56</b>	<b>18,236,743</b>	<b>41</b>	<b>1</b>	<b>18,236,759</b>

## A.1.4 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad debts	Unlikely to be repaid	Past due exposures
<b>A. Opening gross exposure</b>	-	-	<b>56</b>
- of which: exposures assigned but not derecognized	-	-	-
<b>B. Increases</b>	-	-	-
B.1 from performing credit exposures	-	-	-
B.2 transfers from other categories of impaired positions	-	-	-
B.3 other increases	-	-	-
<b>C. Decreases</b>	-	-	-
C.1 to performing credit exposures	-	-	-
C.2 writeoffs	-	-	-
C.3 collections	-	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired positions	-	-	-
C.7 other decreases	-	-	-
<b>D. Closing gross exposure 2017</b>	-	-	<b>56</b>
- of which: exposures assigned but not derecognized	-	-	-

#### A.1.4 BIS BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORN EXPOSURES BY CREDIT QUALITY

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

#### A.1.5 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN TOTAL ADJUSTMENTS OF LOANS

	Bad debts		Unlikely to be repaid		Impaired past due exposures	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
<b>A. Total opening adjustments</b>	-	-	-	-	<b>39</b>	-
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
<b>B. Increases</b>	-	-	-	-	<b>1</b>	-
B.1 writedowns	-	-	-	-	1	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired positions	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	-	-	-
C.1 writebacks from valuations	-	-	-	-	-	-
C.2 writebacks from collections	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	-	-	-	-	-	-
C.5 transfers to other categories of impaired positions	-	-	-	-	-	-
C.6 other decreases	-	-	-	-	-	-
<b>D. Total closing adjustments 2017</b>	-	-	-	-	<b>40</b>	-
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

## A.1.6 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS VALUES, NET VALUES AND TIME PAST DUE

	Gross exposure				Unimpaired assets	Specific writedowns	Portfolio writedowns	Net exposure 31/12/2017
	Impaired assets							
	Up to 3 months	From more than 3 months to 6 months	From more than 6 months to 1 year	More than 1 year				
<b>A. ON-BALANCE-SHEET EXPOSURES</b>								
a) Bad debts	10,527	32,173	59,339	1,290,885	X	812,291	X	580,633
- of which: forborne exposures	7	11,099	2,302	75,545	X	52,233	X	36,720
b) Unlikely to be repaid	362,075	92,440	168,432	465,307	X	372,908	X	715,346
- of which: forborne exposures	241,072	57,857	75,032	151,012	X	168,816	X	356,156
c) Impaired past due exposures	31,487	18,893	5,249	6,323	X	9,571	X	52,380
- of which: forborne exposures	347	596	538	41	X	165	X	1,357
d) Unimpaired past due exposures	X	X	X	X	305,128	X	8,414	296,714
- of which: forborne exposures	X	X	X	X	23,658	X	921	22,737
e) Other unimpaired assets	X	X	X	X	16,507,124	X	85,611	16,421,513
- of which: forborne exposures	X	X	X	X	163,595	X	4,368	159,227
<b>Total A</b>	<b>404,088</b>	<b>143,506</b>	<b>233,019</b>	<b>1,762,515</b>	<b>16,812,252</b>	<b>1,194,769</b>	<b>94,025</b>	<b>18,066,586</b>
<b>B. OFF-BALANCE-SHEET EXPOSURES</b>								
a) Impaired	31,277	-	-	-	X	575	X	30,702
b) Unimpaired	X	X	X	X	1,201,188	X	5,768	1,195,420
<b>Total B</b>	<b>31,277</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,201,188</b>	<b>575</b>	<b>5,768</b>	<b>1,226,122</b>
<b>TOTAL (A+B)</b>	<b>435,365</b>	<b>143,506</b>	<b>233,019</b>	<b>1,762,515</b>	<b>18,013,440</b>	<b>1,195,344</b>	<b>99,794</b>	<b>19,292,708</b>

## A.1.7 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS IMPAIRED POSITIONS

	Bad debts	Unlikely to be repaid	Impaired past due exposures
<b>A. Opening gross exposure</b>	<b>1,251,966</b>	<b>1,237,092</b>	<b>80,132</b>
- of which: exposures assigned but not derecognized	37	2,111	557
<b>B. Increases</b>	<b>379,769</b>	<b>234,979</b>	<b>43,744</b>
B.1 from performing credit exposures	21,148	168,256	35,845
B.2 transfers from other categories of impaired positions	189,302	16,026	535
B.3 other increases	169,319	50,697	7,364
<b>C. Decreases</b>	<b>238,811</b>	<b>383,818</b>	<b>61,924</b>
C.1 to performing credit exposures	1,435	50,455	4,868
C.2 writeoffs	52,047	15,761	610
C.3 collections	118,990	141,943	11,693
C.4 gains on disposal	10,612	947	-
C.5 losses on disposal	52,058	1,342	6,527
C.6 transfers to other categories of impaired positions	279	171,625	33,959
C.7 other decreases	3,390	1,745	4,267
<b>D. Closing gross exposure 2017</b>	<b>1,392,924</b>	<b>1,088,253</b>	<b>61,951</b>
- of which: exposures assigned but not derecognized	647	15,052	1,257

## A.1.7 BIS BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

	Impaired forborne exposures	Unimpaired forborne exposures
<b>A. Opening gross exposure</b>	<b>646,728</b>	<b>247,714</b>
- of which: exposures assigned but not derecognized	591	16,546
<b>B. Increases</b>	<b>151,203</b>	<b>106,495</b>
B.1 from performing credit exposures without forbearance	16,961	58,301
B.2 from performing credit exposures with forbearance	50,965	X
B.3 from impaired exposures with forbearance	X	39,698
B.4 other increases	83,278	8,495
<b>C. Decreases</b>	<b>182,484</b>	<b>166,955</b>
C.1 to performing credit exposures without forbearance	X	92,928
C.2 to performing credit exposures with forbearance	39,698	X
C.3 to impaired exposures with forbearance	X	50,965
C.4 writeoffs	38,914	10
C.5 collections	80,189	21,725
C.6 realization from disposal	47	238
C.7 losses on disposal	1,494	-
C.8 other decreases	22,141	1,088
<b>D. Closing gross exposure</b>	<b>615,447</b>	<b>187,254</b>
- of which: exposures assigned but not derecognized	2,698	8,028

## A.1.8 BANKING GROUP - ON-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: CHANGES IN TOTAL ADJUSTMENTS OF LOANS

	Bad debts		Unlikely to be repaid		Impaired past due exposures	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
<b>A. Total opening adjustments</b>	<b>750,095</b>	<b>48,314</b>	<b>390,129</b>	<b>171,586</b>	<b>9,472</b>	<b>369</b>
- of which: exposures assigned but not derecognized	6	-	250	88	32	-
<b>B. Increases</b>	<b>214,013</b>	<b>41,681</b>	<b>120,377</b>	<b>65,754</b>	<b>11,386</b>	<b>171</b>
B.1 writedowns	131,523	11,649	113,544	49,542	8,320	143
B.2 losses on disposal	1,337	45	437	11	-	-
B.3 transfers from other categories of impaired positions	70,816	25,984	1,814	293	354	27
B.4 other increases	10,337	4,004	4,581	15,909	2,712	-
<b>C. Decreases</b>	<b>151,817</b>	<b>37,762</b>	<b>137,599</b>	<b>68,524</b>	<b>11,287</b>	<b>375</b>
C.1 writebacks from valuations	27,293	7,197	28,740	15,307	432	17
C.2 writebacks from collections	59,796	1,657	17,748	10,788	181	9
C.3 gains on disposal	1,435	53	33	-	-	-
C.4 writeoffs	54,927	28,819	16,507	9,909	474	-
C.5 transfers to other categories of impaired positions	151	-	64,345	25,945	8,488	292
C.6 other decreases	8,215	36	10,226	6,575	1,713	57
<b>D. Total closing adjustments 2017</b>	<b>812,291</b>	<b>52,233</b>	<b>372,908</b>	<b>168,816</b>	<b>9,571</b>	<b>165</b>
- of which: exposures assigned but not derecognized	112	-	3,207	590	171	33



## A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

### A.2.1 BANKING GROUP - DISTRIBUTION OF ON-BALANCE-SHEET CREDIT EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES BY EXTERNAL RATING GRADES

	External rating grades						Not rated	31/12/2017
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
<b>A. On-balance-sheet exposures</b>	<b>172,264</b>	<b>22,945</b>	<b>17,223,771</b>	<b>3,031</b>	<b>-</b>	<b>700</b>	<b>19,078,147</b>	<b>36,500,858</b>
<b>B. Derivatives</b>	<b>35,987</b>	<b>3,205</b>	<b>103,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,552</b>	<b>175,281</b>
B.1 Financial derivatives	35,987	3,205	103,538	-	-	-	17,552	160,281
B.2 Credit derivatives	-	-	-	-	-	-	15,000	15,000
<b>C. Guarantees issued</b>	<b>31,695</b>	<b>1,338</b>	<b>368,663</b>	<b>742</b>	<b>48</b>	<b>-</b>	<b>162,617</b>	<b>565,102</b>
<b>D. Commitment to disburse funds</b>	<b>335</b>	<b>-</b>	<b>268,246</b>	<b>1,385</b>	<b>160</b>	<b>12,870</b>	<b>515,919</b>	<b>798,915</b>
<b>E. Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,979</b>	<b>57,979</b>
<b>Total</b>	<b>240,281</b>	<b>27,488</b>	<b>17,964,217</b>	<b>5,158</b>	<b>207</b>	<b>13,570</b>	<b>19,847,214</b>	<b>38,098,135</b>

The distribution of the exposures in the table shows the breakdown by rating grade of the borrowers referred to in the prudential regulations of the Bank of Italy. The information has been provided by the Fitch rating agency as the External Credit Assessment Institution (ECAI).

The following table maps the risk grades to the ratings of the reference ECAI (Fitch):

<b>Class 1</b>	AAA
	AA+
	AA
	AA-
<b>Class 2</b>	A+
	A
	A-
<b>Class 3</b>	BBB+
	BBB
	BBB-
<b>Class 4</b>	BB+
	BB
	BB-
<b>Class 5</b>	B+
	B
	B-
<b>Other classes</b>	CCC+ and lower

## A.2.2 BANKING GROUP - DISTRIBUTION OF ON-BALANCE-SHEET EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES BY INTERNAL RATING GRADES

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

### A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

Exposures are classified as “fully secured” or “partially secured” by comparing the value of the gross exposures with the values of the contractually determined guarantees.

The columns “collateral” and “uncollateralized guarantees” report the fair value of the guarantees estimated as at the reporting date. That value may not exceed the carrying amount of the secured exposures.

#### A.3.1 BANKING GROUP - SECURED CREDIT EXPOSURES TO BANKS

	Value of net exposure	Collateral (1)					Uncollateralized guarantees (2)								31/12/2017 (1)+(2)	
		Properties - mortgages	Properties - finance leases	Securities	Other assets	Credit derivatives					Guarantees					
						CLN	Governments and central banks	Other government agencies	Banks	Other	Governments and central banks	Other government agencies	Banks	Other		
																Other derivatives
<b>1. Secured on-balance-sheet credit exposures:</b>	<b>15,550,614</b>	<b>1,518</b>	<b>14,001</b>	<b>15,504,975</b>	<b>26,099</b>	-	-	-	-	-	-	-	-	<b>1,702</b>	<b>52</b>	<b>15,548,346</b>
1.1 fully secured	15,550,614	1,518	14,001	15,504,975	26,099	-	-	-	-	-	-	-	-	1,702	52	15,548,346
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Secured off-balance-sheet credit exposures:</b>	<b>5,541</b>	-	-	<b>1,456</b>	-	-	-	-	-	-	-	-	-	<b>4,084</b>	-	<b>5,539</b>
2.1. fully secured	5,541	-	-	1,456	-	-	-	-	-	-	-	-	-	4,084	-	5,539
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## A.3.2 BANKING GROUP - SECURED CREDIT EXPOSURES TO CUSTOMERS

Value of net exposure	Collateral (1)					Uncollateralized guarantees (2)								31/12/2017 (1)+(2)	
	Properties - mortgages	Properties - finance leases	Securities	Other assets	Credit derivatives				Guarantees						
					CLN Governments and central banks	Other government agencies	Banks	Other	Governments and central banks	Other government agencies	Banks	Other			
													Other derivatives		
<b>1. Secured on- balance-sheet credit exposures:</b>	<b>11,701,500</b>	<b>2,633,844</b>	<b>3,437,160</b>	<b>3,099,678</b>	<b>1,270,704</b>	-	-	-	-	-	<b>42,356</b>	<b>162,336</b>	<b>415,357</b>	<b>426,086</b>	<b>11,487,521</b>
1.1 fully secured	11,414,016	2,595,260	3,384,753	3,099,440	1,253,446	-	-	-	-	-	23,908	132,710	368,308	409,837	11,267,662
- of which: impaired	1,249,634	598,700	520,450	415	34,867	-	-	-	-	-	1,413	6,004	38,116	45,255	1,245,220
1.2 partially secured	287,484	38,584	52,407	238	17,258	-	-	-	-	-	18,449	29,626	47,048	16,249	219,859
- of which: impaired	21,763	7,385	4,004	19	1,164	-	-	-	-	-	1,728	30	906	4,991	20,227
<b>2. Secured off- balance-sheet credit exposures:</b>	<b>182,732</b>	<b>49</b>	<b>-</b>	<b>334</b>	<b>2,843</b>	-	-	-	-	-	-	<b>11,214</b>	<b>12,887</b>	<b>142,415</b>	<b>169,742</b>
2.1. fully secured	148,074	49	-	334	2,709	-	-	-	-	-	-	2,847	10,952	130,602	147,493
- of which: impaired	17,110	49	-	-	465	-	-	-	-	-	-	-	7,128	9,469	17,110
2.2. partially secured	34,658	-	-	-	134	-	-	-	-	-	-	8,367	1,935	11,813	22,250
- of which: impaired	5,561	-	-	-	-	-	-	-	-	-	-	-	-	4,932	4,932

## B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

### B.1 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY SECTOR (CARRYING AMOUNT)

	Governments			Other government agencies			Financial companies		
	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns
<b>A. On-balance-sheet</b>									
A.1 Bad debts	-	-	X	1	4	X	1,343	14,245	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X
A.2 Unlikely to be repaid	-	-	X	15	7	X	1,858	1,861	X
- of which: forborne exposures	-	-	X	-	-	X	323	61	X
A.3 Impaired past due exposures	5	1	X	487	4	X	1,851	180	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X
A.4 Unimpaired exposures	2,901,099	X	-	148,835	X	1,524	4,370,288	X	3,233
- of which: forborne exposures	-	X	-	-	X	-	82	X	3
<b>Total A</b>	<b>2,901,104</b>	<b>1</b>	<b>-</b>	<b>149,338</b>	<b>15</b>	<b>1,524</b>	<b>4,375,341</b>	<b>16,285</b>	<b>3,233</b>
<b>B. Off-balance-sheet</b>									
B.1 Bad debts	-	-	X	-	-	X	24	2	X
B.2 Unlikely to be repaid	-	-	X	-	-	X	403	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X
B.4 Unimpaired exposures	166,741	X	-	44,483	X	91	19,589	X	43
<b>Total B</b>	<b>166,741</b>	<b>-</b>	<b>-</b>	<b>44,483</b>	<b>-</b>	<b>91</b>	<b>20,016</b>	<b>2</b>	<b>43</b>
<b>Total (A+B) (2017)</b>	<b>3,067,845</b>	<b>1</b>	<b>-</b>	<b>193,821</b>	<b>15</b>	<b>1,614</b>	<b>4,395,357</b>	<b>16,287</b>	<b>3,275</b>
<b>Total (A+B) (2016)</b>	<b>10,055,132</b>	<b>-</b>	<b>-</b>	<b>229,323</b>	<b>28</b>	<b>1,114</b>	<b>4,041,399</b>	<b>17,267</b>	<b>4,626</b>

	Insurance undertakings			Non-financial companies			Other		
	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns
<b>A. On-balance-sheet</b>									
A.1 Bad debts	-	-	X	425,270	700,383	X	154,019	97,659	X
- of which: forborne exposures	-	-	X	35,892	50,421	-	828	1,812	-
A.2 Unlikely to be repaid	-	-	X	688,835	356,263	X	24,638	14,777	X
- of which: forborne exposures	-	-	X	345,743	163,870	-	10,090	4,885	-
A.3 Impaired past due exposures	-	-	X	38,196	2,048	X	11,841	7,338	X
- of which: forborne exposures	-	-	-	708	92	-	649	73	-
A.4 Unimpaired exposures	62,896	X	48	7,570,521	X	57,158	1,664,588	X	32,063
- of which: forborne exposures	-	X	-	167,520	-	4,961	14,362	-	326
<b>Total A</b>	<b>62,896</b>	<b>-</b>	<b>48</b>	<b>8,722,822</b>	<b>1,058,693</b>	<b>57,158</b>	<b>1,855,085</b>	<b>119,775</b>	<b>32,063</b>
<b>B. Off-balance-sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 Bad debts	-	-	X	700	14	X	67	2	X
B.2 Unlikely to be repaid	-	-	X	29,244	554	X	167	2	X
B.3 Other impaired assets	-	-	X	97	1	X	-	-	X
B.4 Unimpaired exposures	143	X	-	926,049	X	5,527	36,067	X	108
<b>Total B</b>	<b>143</b>	<b>-</b>	<b>-</b>	<b>956,090</b>	<b>569</b>	<b>5,527</b>	<b>36,301</b>	<b>4</b>	<b>108</b>
<b>Total (A+B) (2017)</b>	<b>63,039</b>	<b>-</b>	<b>48</b>	<b>9,678,912</b>	<b>1,059,262</b>	<b>62,685</b>	<b>1,891,387</b>	<b>119,779</b>	<b>32,172</b>
<b>Total (A+B) (2016)</b>	<b>61,886</b>	<b>5</b>	<b>106</b>	<b>10,009,637</b>	<b>1,027,188</b>	<b>69,490</b>	<b>1,884,053</b>	<b>106,533</b>	<b>37,995</b>

## B.2 BANKING GROUP - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

	Italy		Other European countries		Americas		Asia		Rest of the world	
	Net exposure	Total Writedowns	Net exposure	Total Writedowns	Net exposure	Total Writedowns	Net exposure	Total Writedowns	Net exposure	Total Writedowns
<b>A. On-balance-sheet</b>										
A.1 Bad debts	580,419	809,940	0	2	-	2,103	-	-	-	-
A.2 Unlikely to be repaid li	712,429	368,287	616	4,174	0	272	2,242	168	58	6
A.3 Impaired past due exposures	48,296	9,563	2,215	2	0	0	1,868	5	-	-
A.4 Unimpaired exposures	16,397,210	92,948	188,590	677	86,374	315	45,287	79	765	6
<b>Total A</b>	<b>17,738,354</b>	<b>1,280,739</b>	<b>191,422</b>	<b>4,856</b>	<b>86,375</b>	<b>2,690</b>	<b>49,396</b>	<b>252</b>	<b>824</b>	<b>12</b>
<b>B. Off-balance-sheet</b>										
B.1 Bad debts	791	18	-	-	-	-	-	-	(0)	0
B.2 Unlikely to be repaid	23,564	555	690	-	-	-	5,560	-	0	(0)
B.3 Other impaired assets	97	1	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	1,092,084	5,319	73,204	424	25,488	25	1,214	-	1,081	-
<b>Total B</b>	<b>1,116,537</b>	<b>5,894</b>	<b>73,894</b>	<b>424</b>	<b>25,488</b>	<b>25</b>	<b>6,774</b>	<b>-</b>	<b>1,081</b>	<b>-</b>
<b>Total (2017)</b>	<b>18,854,891</b>	<b>1,286,633</b>	<b>265,317</b>	<b>5,280</b>	<b>111,863</b>	<b>2,715</b>	<b>56,170</b>	<b>252</b>	<b>1,905</b>	<b>12</b>
<b>Total (2016)</b>	<b>26,035,524</b>	<b>1,255,510</b>	<b>182,799</b>	<b>5,981</b>	<b>42,654</b>	<b>2,480</b>	<b>16,705</b>	<b>-</b>	<b>3,765</b>	<b>-</b>

### B.3 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS BY GEOGRAPHICAL AREA (CARRYING AMOUNT)

	Italy		Other European countries		Americas		Asia		Rest of the world	
	Net exposure	Total Writedowns	Net exposure	Total Writedowns	Net exposure	Total Writedowns	Net exposure	Total Writedowns	Net exposure	Total Writedowns
<b>A. On-balance-sheet</b>										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to be repaid li	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	16	41	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	17,612,620	1	299,795	-	8,668	-	2,131	-	1,249	-
<b>Total A</b>	<b>17,612,636</b>	<b>42</b>	<b>299,795</b>	<b>-</b>	<b>8,668</b>	<b>-</b>	<b>2,131</b>	<b>-</b>	<b>1,249</b>	<b>-</b>
<b>B. Off-balance-sheet</b>										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	246,623	-	53,242	-	-	-	2,265	-	4,802	-
<b>Total B</b>	<b>246,623</b>	<b>-</b>	<b>53,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,265</b>	<b>-</b>	<b>4,802</b>	<b>-</b>
<b>Total (2017)</b>	<b>17,859,258</b>	<b>42</b>	<b>353,037</b>	<b>-</b>	<b>8,668</b>	<b>-</b>	<b>4,395</b>	<b>-</b>	<b>6,052</b>	<b>-</b>
<b>Total (2016)</b>	<b>21,394,091</b>	<b>40</b>	<b>273,047</b>	<b>-</b>	<b>15,375</b>	<b>-</b>	<b>4,255</b>	<b>-</b>	<b>12,717</b>	<b>-</b>



## B.4 LARGE EXPOSURES

The rules governing the concentration of exposures define a large exposure as one to a customer or group of connected customers that (regardless of the weighted position) is equal to or greater than 10% of a bank's eligible capital. It is no longer possible to use favorable weightings for interbank exposures and new methods have been introduced for calculating exposures in the presence of investment schemes.

In the light of these changes, the following reports positions that, in exceeding 10% of eligible capital, represent large exposures.

The following represents the situation at December 31, 2017:

- a) Number of positions: 36
- b) Carrying amount: €24,911 million
- c) Weighted amount: €1,783 million

The positions mainly regard transactions with bank counterparties in the mutual banking industry. Of the 36 positions reported, only the weighted exposure to the Clearing and Guarantee Fund exceeded the supervisory limit of 25% of eligible capital.

In the early days of January 2018, the Iccrea Group took appropriate measures to ensure compliance with the limit.

## C. SECURITIZATIONS

### C.1 SECURITIZATIONS

#### QUALITATIVE DISCLOSURES

The Iccrea Banking Group operates in the securitization market as both an originator and investor. The main objectives pursued through securitization can be summarized as follows:

- diversifying the sources of funding and reducing its cost;
- strengthening the liquidity position by creating eligible assets for refinancing operations with the ECB (so-called self-securitizations).

In all of these transactions, the Group companies have retained first losses by subscribing the junior notes. The senior notes have been placed with institutional investors (with the exception of the self-securitizations in which the originator subscribes all of the securities issued by the special purpose vehicle).

The following section details the main securitizations by originator.

### ICCREA BANCA IMPRESA S.P.A.

#### ICCREA SME CART 2016 (AGRI#9)

On August 10, 2016, the Agri#9 securitization was finalized, with the assignment of future receivables in an initial portfolio of €1,364,760,850.25 of performing lease contracts originated by Iccrea BancaImpresa and the issue of the associated securities by ICCREA SME CART 2016 S.r.l (the “special purpose entity”), with the concomitant payment of the assignment price of €1,364,622,200.00, including €617,460,000.00 of the Class D (junior) notes subscribed by Iccrea BancaImpresa.

The operation, in line with those carried out in 2007, 2009 and 2011 through the special-purpose entities Agricart 4 Finance S.r.l. and Iccrea Sme Cart S.r.l. (Agri#4, Agri#6 and Agri#7), was carried out to acquire new funding for lease financing and loans to small and medium-sized enterprises, or projects sponsored by mid-caps, thereby diversifying funding sources and at the same time obtaining new funding (with an expected average life of about 4 years) with an attractive maturity and cost, especially in view of current market conditions. The transaction did not pursue capital objectives, as under the provisions of the relevant supervisory regulations the characteristics of the transaction do not permit any reduction in capital requirements for the assignor bank.

#### FEATURES OF THE OPERATION

The transaction involved Iccrea Banca as Sole Arranger.

*SECURITIES*

As part of the transaction, on August 10, 2016, ABSs amounting to €1,374,160,000.00 were issued by the special purpose entity. The Class A1, A2 and B notes are listed on the Irish Stock Exchange. The issue has the following characteristics:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A1	Aa2/AAA	202.3	14.7%	3M Euribor + 0.10%	1/06/2019
A2	Aa2/AA (low)	480	35%	3M Euribor + 0.85%	1/06/2021
B	A1/A	65	4.7%	3M Euribor + 1.15%	1/12/2021
C	NR – LOW MEZZANINE	9.4	0.7%	3M Euribor + 1.20%	1/12/2018
D	NR - JUNIOR	617.5	44.9%	Residual remuneration	1/03/2022

The Class A1 and A2 are ranked pari passu for payment of interest but are amortized on a different schedule except in the case of post enforcement, in which case amortization will also be pari passu and have priority with respect to all other notes.

Redemption of the Class A1 notes will begin at the end of the two-year revolving period. Accordingly, the first redemption is scheduled for December 2018.

Redemption of the Class C notes will begin in December 2018 only if and to the extent that the special purpose entity has sufficient funds, exclusively for interest, to use for that purpose after having paid all costs in the interest payment ranking that have priority over redemption.

*ASSIGNED PORTFOLIO*

The contract assigning the portfolio of performing leasing receivables to the special purpose entity was executed on July 20, 2016. The portfolio also includes the receivables, which meet the requirements for assignment in the new operation, that were repurchased by the Bank as part of the early extinguishment of the previous securitizations. The portfolio was selected on the basis of criteria agreed with the Arranger and the investors, in an amount essentially equal to the value of the Class A1, A2, B and D securities issued, broken down into four pools. At the assignment date, they had the following composition:

Pool	Amount (€)	Amount (%)
1) – Industrial vehicles	85,720,330.26	6.28
2) – Equipment	329,175,688.94	24.12
3) – Real estate	925,077,135.78	67.78
4) – Auto	24,787,695.27	1.82
<b>Total</b>	<b>1,364,760,850.25</b>	<b>100</b>

Revolving operations will be conducted on a quarterly basis and end in September 2018, providing for 8 subsequent assignments of portfolios. The first revolving operation was carried out in December 2016. The selection criteria for the subsequent portfolios are essentially analogous to those used for the initial portfolio.

In line with the most recent securitizations originated by Iccrea Bancalmpresa and with recent market trends, the value of the bargain purchase option was not assigned.

*REPURCHASE OPTION*

The assignment contract gives Iccrea Bancalmpresa an option for the repurchase of the entire portfolio, which can be exercised on a quarterly basis as from the interest payment date following that on which the Class A and B notes are redeemed in full, as long as the purchase price of the receivables, determined in accordance with the procedures set out in the assignment contract, enables full redemption of the outstanding securities and priority payment of all expenses ranking prior to the latter and Iccrea Bancalmpresa has obtained any necessary authorizations required by law or regulations governing the repurchase option, in conformity with the provisions of Article 58 of the Banking Act. In concomitance with the exercise of the repurchase option, the special purpose entity will carry out the early redemption of the securities.

*TRIGGER EVENTS*

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

*SERVICING*

Servicing activities are performed by Iccrea Bancalmpresa, which carries out monitoring, collection and recovery activities using the same procedures adopted for the company portfolio. The contract provides for the termination of servicer activities by Iccrea Bancalmpresa and the transfer of the Servicer role to the Back-Up Servicer where Iccrea Bancalmpresa:

- is in material breach of the provisions of the Servicing agreement; or
- becomes insolvent; or
- is not, or ceases to be, an entity resident in or with its registered office in a country of the European Union, or that status should apply to the Parent Company of the banking group to which Iccrea Bancalmpresa belongs.

The role of Back-Up Servicer has been entrusted to Iccrea Banca under the provision of the Back-Up Servicing Agreement signed at the start of the securitization.

*CREDIT ENHANCEMENT*

Redemption of the notes is secured by the cash flow expected from the assigned portfolio. The operation also provides for the excess spread to cover first losses and for a Debt Service Reserve, which will be made available to the special purpose entity on a quarterly basis. That reserve will be equal to 2% of the rated notes outstanding on a quarter to quarter basis, with a floor of €3,000,000. Until amortization of the notes begins, the reserve will therefore be equal to €14,948,745.04 and was entirely financed at the Issue Date – in the amount of €9,400,000 – with the subscription of the Class C notes by Iccrea Bancalmpresa and with collections of interest – in the amount of the remaining €5,548,745.04 – generated on the assigned portfolio for the lease instalment for August 2016.

**BANCA SVILUPPO S.P.A.**

Banca Sviluppo has 7 outstanding “own” securitizations (2 securitizations and 5 self-securitizations) of performing loans, acquired from Banca Romagna Cooperativa (hereinafter BRC) and Banca Credito Cooperativo Interprovinciale Veneto (hereinafter Crediveneto). The transactions are multi-originator securitizations with the involvement of multiple mutual banks, structured as follows:

- assignment without recourse “en bloc” by the originator of a loan portfolio;
- acquisition of the loans by the assignor/issuer, special purpose vehicle and issue by the latter of notes in tranches with different repayment characteristics in order to raise funds;
- subscription of the Senior and Mezzanine notes by intermediaries acting as placement agents;
- subscription by the mutual banks (assignors) of the Class C – Junior notes.

The Class notes were broken down into various series, each proportionate to the amount of the loans assigned by the individual banks, which then subscribed the notes in full.

Although the individual operations have the same structure, the parts of each assignor mutual bank remain separate (segregated asset pools). This means that despite the unitary nature of the operation, the cash flows are separate. The transaction would be managed as a single operation only in extraordinary circumstances (i.e. default events).

The following section details the individual transactions.

## “CREDITI IN BONIS 2006” SECURITIZATION – CREDICO FINANCE 6 SRL

On June 1, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 6 Srl (SPV) with a nominal value of €13,784,187.

### FEATURES OF THE OPERATION

The transaction involved Società Generale as arranger and Iccrea Banca S.p.A. as co-arranger.

### SECURITIES

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	563.9	94,0%	3-month Euribor + 0.16%	2038
B	Aa2/BBB-	24	4%	3-month Euribor + 0.46%	2038
C	NR - JUNIOR	11.8	2%	Residual remuneration	2038

The Class C notes were subdivided into 25 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full. Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €297,187.

### ASSIGNED PORTFOLIO

The purchase price for the portfolio of assigned loans was equal to €13,784,187, corresponding to the carrying amount of the loans at the assignment date. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

### REPURCHASE OPTION

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

### TRIGGER EVENTS

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

### SERVICING

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

In this securitization, each assignor mutual bank acts as servicer. Although no longer owner of the assigned loans, as they were assigned without recourse, each mutual bank handles the ordinary management (collection of payments, issuing receipts of payment, certification of interest, etc.) and extraordinary management (management of irregularities, dunning in the event of payment arrears, management of substandard positions and bad debts) in the name and on behalf of the SPV as if the loan portfolio had never been transferred.

*CREDIT ENHANCEMENT*

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Société Générale in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. Following the downgrade of Italian government securities, the securities pledged to secure the line of liquidity were no longer considered sufficient. This prompted the SPV to request, in 2011, the establishment of a cash reserve for the line of liquidity, amending the contract documentation appropriately.

The cash reserve amounts to €546 thousand and is represented in the financial statements as a reduction in the exposure to the SPV. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.20 bps.

**“CREDITI IN BONIS 2006” SECURITIZATION– CREDICO FINANCE 7 SRL**

On December 19, 2006, BRC assigned without recourse performing residential mortgage loans to Credico Finance 7 Srl (SPV) with a nominal value of €37,318,807.

*FEATURES OF THE OPERATION*

The transaction involved Societè Generale as arranger and Iccrea Banca S.p.A. as co-arranger.

*SECURITIES*

The Senior and Mezzanine notes were placed with institutional investors and have been rated as follows:

Class	Rating (Moody's/S&P)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/BBB-	449.2	94%	3-month Euribor + 0.16%	31/03/2039
B	Aa2/BBB-	19.1	4%	3-month Euribor + 0.55%	31/03/2039
C	NR - JUNIOR	9.5	2%	Residual remuneration	31/03/2039

The Class C notes were subdivided into 16 series, each in an amount proportionate to the amount of the loans assigned by the individual participating banks, which subscribed those notes in full.

Each subscribed only the series of subordinated securities pertaining to them, with payment of the price at par. The structure of the transaction enables the Bank to benefit from any return on the assigned portfolio that exceed the amount paid to the subscribers of the Senior and Mezzanine notes.

The amount of the Class C – Junior notes subscribed by the Bank was €746,807.

*ASSIGNED PORTFOLIO*

The purchase price for the portfolio of assigned loans was equal to €37,318,807, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The assigned portfolio meets a number of criteria common to all of the participating mutual banks (more specifically, performing loans from mortgage transactions secured by first mortgages) as well as the specific criteria determined by our Bank.

*REPURCHASE OPTION*

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

*TRIGGER EVENTS*

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

*SERVICING*

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

*CREDIT ENHANCEMENT*

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap with Royal Bank of Scotland in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that at a payment date the available funds from collections were not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers: each assignor made the government securities CCT 1/11/2012 IT0003993158, in the amount of €1,062,000, available to the SPV in order to provide a form of liquidity support, replacing the support already provided with the line of liquidity (this guarantee can therefore only be enforced if it is not possible to use the liquidity and can only be activated up to the entire amount of the liquidity line). This enables the SPV to pay promptly any amounts due to the holders of the Senior and Mezzanine notes in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization.

In 2011, following the downgrade of Italy by Standard&Poor's and Moody's, the Italian government securities (CCTs) pledged to secure the line of liquidity through the establishment of a limited-recourse loan no longer met the criteria of the rating agencies and were replaced with a cash reserve created by fully drawing down the line of liquidity in the amount of €1,445 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.20 bps.

**“CREDITI IN BONIS 2011” SECURITIZATION – CREDICO FINANCE 9 SRL**

On June 30, 2011, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €35,471,478.

*FEATURES OF THE OPERATION*

The transaction involved Iccrea Banca S.p.A. as arranger.

*SECURITIES*

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	554.4	87%	3-month Euribor + 0.30%	15/11/2050
B	NR - JUNIOR	82.8	13%	Residual remuneration	15/11/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

*ASSIGNED PORTFOLIO*

The purchase price for the portfolio of assigned loans was equal to €35,471,478, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 18 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €4,571,478.

*TRIGGER EVENTS*

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

*REPURCHASE OPTION*

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

*SERVICING*

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

*CREDIT ENHANCEMENT*

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

In order to hedge interest rate risk, the SPV subscribed a basis swap in order to mitigate any rate mismatching between the securitized assets and the interest paid on the notes issued. Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be used in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The assignors also acted as limited-recourse loan providers. Accordingly, each assignor made government securities (or other securities in accordance with the contractual terms, specifying the type of security and the amounts) available to the SPV in order to provide a form of liquidity support, replacing the resources available through the line of liquidity. This form of guarantee can only be enforced if it is not possible to use the line of liquidity and can be activated up to the entire amount of the liquidity line. This enables the SPV to pay promptly any amounts due to the holders of the Senior in respect of principal and interest, in accordance with the rules governing the Notes, as well as to meet the costs of the securitization. The enduring recession and recent market turbulence, which among other things have led to a downgrade of the Italian State, made it advisable to review the collateral forms of guarantee provided for securitizations initiated by the Bank in previous years.

In this context, in 2011 a number of amendments were made to the transaction contracts: in particular, the liquidity contract and the limited-recourse loan contract were amended to enable substitution of the government securities where necessary. As a result of these changes, the Bank, subject to notification of the SPV, replaced the limited-recourse loan in government securities with a cash reserve, established by the SPV by fully drawing down the liquidity line. The cash reserve amounts to €1,533 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

**“CREDITI IN BONIS 2012” SECURITIZATION – CREDICO FINANCE 10 SRL**

On April 23, 2012, BRC assigned without recourse performing residential mortgage loans to Credico Finance 9 Srl (SPV) with a nominal value of €36,668,028. At the same time, Crediveneto assigned performing residential mortgage loans with a nominal value of €34,275,649.58, for a total of €70,943,677.27.



*FEATURES OF THE OPERATION*

The transaction involved Iccrea Banca S.p.A. as arranger.

*SECURITIES*

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AA	1,333.2	84.25%	3-month Euribor + 0.30%	31/10/2050
B	NR - JUNIOR	249.2	15.75%	Residual remuneration	31/10/2050

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

*ASSIGNED PORTFOLIO*

The purchase price for the portfolio of assigned loans was equal to €70,943,677, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 30 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by BRC was €5,769,000, while Crediveneto subscribed €5,376,000.

*TRIGGER EVENTS*

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

*REPURCHASE OPTION*

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

*SERVICING*

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

*CREDIT ENHANCEMENT*

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be used in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €3,562 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

**“CREDITI IN BONIS 2013” SECURITIZATION– CREDICO FINANCE 14 SRL**

On October 17, 2013, BRC assigned without recourse performing residential mortgage loans to Credico Finance Srl (SPV) with a nominal value of €22,831,016.

*FEATURES OF THE OPERATION*

The transaction involved Iccrea Banca S.p.A. as arranger.

*SECURITIES*

The Senior notes have been rated as follows:

Class	Rating (S&P/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	BBB-/A high	219.4	72%	3-month Euribor + 0.20%	31/07/2052
B	NR - JUNIOR	85.4	28%	Residual remuneration	31/07/2052

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

*ASSIGNED PORTFOLIO*

The purchase price for the portfolio of assigned loans was equal to €22,831,016, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 10 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the Bank was €6,432,000.

*TRIGGER EVENTS*

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

*REPURCHASE OPTION*

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

*SERVICING*

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.40% on the outstanding and 6% on collections on defaulted positions.

*CREDIT ENHANCEMENT*

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €656 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

**“CREDITI IN BONIS 2009” SECURITIZATION– CREDICO FINANCE 8 SRL**

On February 23, 2009, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 8 Srl (SPV) with a nominal value of €39,835,432.

*FEATURES OF THE OPERATION*

The transaction involved Iccrea Banca S.p.A. as arranger.

*SECURITIES*

The Senior notes have been rated as follows:

Class	Rating (Moody's/DBRS)	Amount (€/millions)	Amount (%)	Interest rate	Expected maturity
A	Aa2/AAA	369.25	90.5%	3-month Euribor + 0.30%	31/07/2046
B	NR - JUNIOR	38.77	9.5%	Residual remuneration	31/07/2046

The transaction provided for the concomitant repurchase by the originating banks of the liabilities issued by the SPV. The Senior tranche is used as eligible collateral for refinancing operations with the Eurosystem.

*ASSIGNED PORTFOLIO*

The purchase price for the portfolio of assigned loans was equal to €39,835,432, corresponding to the carrying amount of the loans at the assignment date. The transaction therefore did not involve the recognition of either gains or losses. The Class B – Junior notes were subdivided into 14 series, each in an amount proportionate to the amount of loans assigned by the individual originators. The amount of the Class B – Junior notes subscribed by the bank was €3,785,432.

*TRIGGER EVENTS*

The trigger events envisaged in the contract are in line with market practice and consistent with the assignment of a performing portfolio.

*REPURCHASE OPTION*

Banca Sviluppo holds a clean-up call option that can be exercised in the event the value of the portfolio at the time of repurchase does exceed 10% of the lower of the nominal value and the purchase price of the portfolio.

*SERVICING*

Each originator acts as servicer in the securitization, handling the administration, management, receipts and any debt collection activities associated with the loans. The Bank receives an annual commission of 0.30% on the outstanding and 6% on collections on defaulted positions.

*CREDIT ENHANCEMENT*

There is no overcollateralization: the outstanding value of the loans is equal to the size of the issue.

Each assignor provided the SPV with a line of liquidity proportionate to the amount assigned, to be use in the event that, at a payment date, the available funds from collections are not sufficient to pay interest on the notes in the payment priority order. The liquidity was deposited on a current account in the name of the SPV (the cash reserve). The cash reserve amounts to €1,255 thousand. The SPV pays the Bank interest on amounts used at a rate of EONIA – 0.10 bps.

**“CREDITI IN BONIS 2012” SECURITIZATION– CREDICO FINANCE 11 SRL (TERMINATED IN 2017)**

On July, 25, 2012, Crediveneto assigned without recourse performing residential mortgage loans to Credico Finance 11 Srl (SPV) with a nominal value of €51,880,270.

During 2017 the originator banks of the securitization exercised the repurchase option (clean-up call) provided for in the rules (which could be exercised if the value of the initial portfolio outstanding at the time of repurchase was not greater than 10% of the lower of the nominal value of the initial portfolio and the assignment price of the portfolio), thereby effectively terminating the securitization. Banca Sviluppo repurchased 146 assigned mortgage loans for a total of €18.010 million.

### THIRD-PARTY SECURITIZATIONS

On December 31, 2017 the Group subscribed unrated 10-year senior notes issued by the “Lucrezia Securitisation” vehicle for an amount of €13,075 million.

The assets underlying the securitization are represented by impaired receivables:

- of BCC Irpina and BCC Padovana, in the amount of €31.787 million and €178.019 million, respectively;
- of Bcc Crediveneto, in the amount of €76.620 million;
- of Bcc Teramo, for €40.220 million.

The Group also granted the vehicle a loan of €108 million to purchase the impaired receivables, undertaking to subscribe all of the corresponding notes, as part of the support measures to resolve the mutual bank crisis.

The following table reports the details of the three categories of securities:

Securities	ISIN	Type of note	Assets	Assignor bank	Assigned portfolio (millions of euros)	Carrying amount (millions of euros)
LUCREZIA SEC,16/26 TV SEN.	IT0005216392	Senior	NPL	BCC Irpinia/BCC Padovana	209.806	8.032
LUCREZIA SEC,17/27 TV SEN.	IT0005240749	Senior	NPL	BCC Crediveneto	76.620	3.172
LUCREZIA SEC,17/27 TV SEN.	IT0005316846	Senior	NPL	BCC di Teramo	40.220	1.871
<b>TOTAL</b>						<b>13.075</b>

The notes have been classified by the Bank in the L&R portfolio and reported under item 70 – Loans to customers in the financial statements.

## QUANTITATIVE DISCLOSURES

The following tables do not report exposures in respect of securitizations in which the Group companies, acting as originators, subscribed the ABSs issued by the SPV at issue: Credico Finance 9, Credico Finance 10, and Credico Finance 14. For more details on these operations, please see the qualitative disclosures earlier in this section

### C.1 BANKING GROUP - EXPOSURES IN RESPECT OF MAIN OWN SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued			Credit lines				
	Senior		Mezzanine		Junior		Senior		Mezzanine	Junior		Senior	Mezzanine	Junior
	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks	Carrying amount	Writedowns / writebacks
<b>A. Fully derecognized</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. Partially derecognized</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>C. Not derecognized</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>C,1 AGRI 9</b>														
- Lease receivables	202,300	-	9,400	-	617,460	-	-	-	-	-	-	-	-	-
<b>C,7 CREDICO FINANCE 6</b>														
- Mortgage loans	-	-	-	-	11	2	-	-	-	-	-	-	-	-
<b>C,8 CREDICO FINANCE 7</b>														
- Mortgage loans	-	-	-	-	37	4	-	-	-	-	-	-	-	-

Tables C.1 and C.2 were completed in accordance with the guidelines of the Bank of Italy: the junior notes are reported in proportion to the total loans outstanding at December 31, 2017 and broken down by type of asset and credit quality.

## C.2 BANKING GROUP - EXPOSURES IN RESPECT OF MAIN THIRD-PARTY SECURITIZATIONS BY TYPE OF SECURITIZED ASSETS AND TYPE OF EXPOSURE

	On-balance-sheet exposures						Guarantees issued						Credit lines			
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior	Mezzanine	Junior	
	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	Carrying amount	Writedowns / writebacks	Carrying amount	
<b>CREDICO FINANCE 6</b>	-	-	-	-	286	53	-	-	-	-	-	-	-	-	-	-
- Performing					286	53										
<b>CREDICO FINANCE 7</b>	-	-	-	-	709	74	-	-	-	-	-	-	-	-	-	-
- Performing					709	74										
<b>LUCREZIA BCC PADOVANA E IRPINA</b>	8,072	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Bad debts	8,072															
<b>LUCREZIA BCC CREDIVENETO</b>	3,172	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Bad debts	3,172															
<b>LUCREZIA BCC TERAMO</b>	1,871	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Bad debts	1,871															
<b>LUCREZIA BCC ROMAGNOLO</b>	108,394	171	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Bad debts	108,394	171														

This table, for the Credito Finance 6 and 7 transactions, reports the exposure in respect of the third-part assets as a proportion of the total securitized assets, as the securitizations are multi-originator operations.

## C.3 BANKING GROUP - INVOLVEMENT IN SPECIAL PURPOSE SECURITIZATION VEHICLES

Vehicle/securitization name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
CREDICO FINANCE 6 S.r.l.	Via Barberini 47 00187 Rome	NO	61,968	-	1,145	25,370	24,000	11,885
CREDICO FINANCE 7 S.r.l.	Via Barberini 47 00187 Rome	NO	64,171	-	875	38,062	16,700	9,590
ICCREA SME CART S.r.l.	Via Barberini 47 00187 Rome	YES	1,359,637	-	20,397	682,300	74,400	617,460
LUCREZIA BCC PADOVANA E IRPINA		NO	160,900			169,900		
LUCREZIA BCC CREDIVENETO		NO	67,600			67,600		
LUCREZIA BCC TERAMO		NO	38,600			38,600		
LUCREZIA BCC ROMAGNOLO		YES	108,395			108,395		

## C.4 BANKING GROUP - INVOLVEMENT IN UNCONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

The maximum exposure to the risk of loss was calculated by summing the difference between assets and liabilities, off-balance-sheet exposures, irrevocable credit lines and financial guarantees held in respect of these vehicles and reported in the column “difference between the exposure to the risk of loss and carrying amount”.

Vehicle/securitization name	Asset portfolios	Total assets (A)	Liability portfolios	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to risk of loss (D)	Difference between the exposure to the risk of loss and carrying amount (E=D-C)
CREDICO FINANCE 6 S.r.l.	843	843	2,331	2,331	(1,448)	-	(1,448)
CREDICO FINANCE 7 S.r.l.	2,912	2,912	3,243	3,243	(331)	-	(331)

## C.5 BANKING GROUP - SERVICER ACTIVITIES - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY SECURITIZATION VEHICLE

Servicer	Vehicle	Securitized assets (end-period figure)		Loan collections in the year		Percentage of notes redeemed					
		Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
						Impaired	Performing	Impaired	Performing	Impaired	Performing
IBI	AGRI 9 - ICCREA SME CART 2016 S.r.l.	-	-	2,113	360,354	-	-	-	-	-	-
BS	CREDICO FINANCE 6 S.r.l.	90	2,240	-	595	-	-	-	-	-	-
BS	CREDICO FINANCE 7 S.r.l.	40	3,203	-	753	-	-	-	-	-	-

## C.6 BANKING GROUP – CONSOLIDATED SPECIAL PURPOSE SECURITIZATION VEHICLES

The maximum exposure to the risk of loss was calculated by summing the difference between assets and liabilities, off-balance-sheet exposures, irrevocable credit lines and financial guarantees held in respect of these vehicles and reported in the column “difference between the exposure to the risk of loss and carrying amount”.

Vehicle/securitization name	Asset portfolios	Total assets (A)	Liability portfolios	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to risk of loss (D)	Difference between the exposure to the risk of loss and carrying amount (E=D-C)
ICCREA SME CART S.r.l.	Loans to customers	1,355,873	Amts. due to customers	543,588	812,284	812,284	-
LUCREZIA BCC ROMAGNOLI	Loans to customers	108,394	-	-	108,394	-	-

## D. DISCLOSURES ON STRUCTURED ENTITIES (OTHER THAN SECURITIZATION VEHICLES))

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- a. restricted activities;
- b. a narrow and well-defined objective, such as to provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- c. insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- d. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Iccrea Banking Group has exposures to structured entities that mainly operate as special purpose vehicles for securitizations and closed- or open-end securities/real estate investment funds in which the Group has subscribed units or to which it has lent funds.

For the purpose of this section, transactions carried out with special purpose securitization vehicles are not considered. For more on that type of structured entity, please see section C. Securitization and section E. Disposals in Part E of the consolidated notes to the financial statements.

### D.1 CONSOLIDATED STRUCTURED ENTITIES

A structural entity is consolidated in the presence of a contractual/non-contractual involvement that gives rise to control over the relevant activities of the entity and exposes the Group to variability of returns from the performance of that entity. More specifically, structured entities consolidated by the Iccrea Group are:

- Fondo Securfondo;
- Fondo Securis Real Estate I;
- Fondo Securis Real Estate II;
- Fondo Securis Real Estate III

The following table summarizes the on-and off-balance-sheet exposures held by Group companies in respect of the consolidated structured entities noted above.

These exposures are eliminated in consolidation: in order to fully represent the involvement in the real estate risk underlying the investment in the funds, it was decided to recognize the underlying real estate portfolio rather than the units subscribed.

Structured entity	Total assets	Off-balance-sheet exposures
Securfondo	17,072	-
Fondo Securis Real Estate I	231,824	-
Fondo Securis Real Estate II	146,658	-
Fondo Securis Real Estate III	103,076	-



## D.2 STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES

### D.2.1 STRUCTURED ENTITIES CONSOLIDATED FOR SUPERVISORY PURPOSES

The Group does not have exposures to structured entities that are unconsolidated for accounting purposes but consolidated for supervisory purposes.

### D.2.2 OTHER STRUCTURED ENTITIES

The Group has exposures to unconsolidated structured entities, mainly regarding units subscribed and loans granted to securities/real estate investment funds (collective investment undertakings - CIUs).

The following table reports a summary of the on- and off-balance-sheet exposure of the Group to this type of structure entity (by accounting category).

Accounting category	Total assets	Off-balance-sheet exposures
Assets held for trading	539	-
Assets available for sale	27,668	17,724

The off-balance-sheet exposure regards the Group's commitment to subscribe new units in the following funds:

- the social housing fund denominated "Iccrea Bancalmpresa" in the amount of €9.1 million;
- Atlante in the amount of €3.232 million;
- Idea Taste of Italy in the amount of €5.359 million.

## E. DISPOSALS

### A. FINANCIAL ASSETS ASSIGNED BUT NOT FULLY DERECOGNIZED

#### QUALITATIVE DISCLOSURES

The operations mainly regard the use of government securities holdings for short- and medium-term repurchase transactions and receivables from customers assigned in the Group's securitization of its own assets.

#### QUANTITATIVE DISCLOSURES

### E.1 BANKING GROUP - FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED: CARRYING AMOUNTS AND FULL VALUES

	Financial assets held for trading			Financial assets at fair value			Financial assets available for sale			Financial assets held to maturity			Amounts due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2017	31/12/2016
<b>A. On-balance</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,364,498	-	-	1,364,498	9,226,597
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,857,901
2. Equity securities	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	-	-
3. Units in collective investment undertakings	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,364,498	-	-	1,364,498	1,368,696
<b>B. Derivatives</b>	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
<b>Total (2017)</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,364,498	-	-	1,364,498	X
<i>Of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,422	-	-	13,422	X
<b>Total (2016)</b>	61,035	-	-	-	-	-	3,058,257	-	-	4,738,609	-	-	-	-	-	1,368,696	-	-	X	9,226,597
<i>Of which impaired</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,416,963	-	-	X	2,416,963

Key:

A= Assigned financial assets fully recognized (carrying amount)

B= Assigned financial assets partially recognized (carrying amount)

C=Assigned financial assets partially recognized (full value)

## E.2 BANKING GROUP - FINANCIAL LIABILITIES IN RESPECT OF FINANCIAL ASSETS ASSIGNED BUT NOT DERECOGNIZED: CARRYING AMOUNTS

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Amounts due from banks	Loans to customers	31/12/2017
<b>1. Due to customers</b>	-	-	-	-	-	546,127	546,127
a) in respect of assets fully recognized	-	-	-	-	-	546,127	546,127
b) in respect of assets partially recognized	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	-	-	-	-	-
a) in respect of assets fully recognized	-	-	-	-	-	-	-
b) in respect of assets partially recognized	-	-	-	-	-	-	-
<b>3. Securities issued</b>	-	-	-	-	-	-	-
a) in respect of assets fully recognized	-	-	-	-	-	-	-
b) in respect of assets partially recognized	-	-	-	-	-	-	-
<b>Total (2017)</b>	-	-	-	-	-	546,127	546,127
<b>Total (2016)</b>	61,166	-	3,059,199	1,620,371	3,482	547,049	5,291,267

## E.3 BANKING GROUP – DISPOSALS INVOLVING LIABILITIES WITH RECOURSE ONLY ON DIVESTED ASSETS: FAIR VALUE

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

## B. FINANCIAL ASSETS ASSIGNED AND DERECOGNIZED WITH RECOGNITION OF CONTINUING INVOLVEMENT

At December 31, 2017 there were no financial assets assigned and derecognized with recognition of continuing involvement.

## F. BANKING GROUP - MODELS FOR MEASURING CREDIT RISK

The Group does not use internal models for measuring credit risk.

### 1.2 BANKING GROUP - MARKET RISKS

#### 1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

##### QUALITATIVE DISCLOSURES

###### A. General aspects

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One). At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS market;
- acting as market maker and direct participant (to handle orders from mutual banks) on the multilateral trading systems Hi-MTF and EuroTLX;
- participating in the primary market for equities and bonds and in auctions and subscriptions of government securities;
- transacting repurchase agreements on OYC markets and regulated markets, as well as derivatives on regulated markets;
- structuring, creation and management of financial derivatives on unregulated markets, mainly to meet the specific needs of Bank customers;
- providing the mutual banks will investment services, trading on own account, execution on customer account, order reception and transmission, trading on third-party account and placement of financial instruments issued by the Bank or third parties;
- providing the mutual banks access to the standing facilities of the ECB;
- managing liquidity and the short-term interest rate risk profile associated with interbank operations, foreign exchange markets and precious metal markets;
- structuring of medium/long-term funding operations on domestic and international markets.

Within the framework of delegated operating powers, specific operating limits have been set for trading positions that generate exposures to market risks. These are mainly assumed through domestic government securities and transactions in futures contracts traded on official markets with clearing and guarantee funds, as well as derivatives on interest rates, mainly plain vanilla instruments to support the hedging needs of the mutual banks.

Operations in interest rate derivatives also include interest rate swaps with institutional counterparties to support the vehicle companies in transforming the interest flows generated by mutual bank securitizations. The overall exposure to interest rate risk is concentrated in euro-denominated transactions and, accordingly, correlation effects between developments in the yield curves in different currency areas are minimal.

## B. Management and measurement of interest rate risk and price risk

### Governance and organizational model

The market risk management and governance framework of the Iccrea Banking Group adopts a “centralized” approach. The Parent Company is responsible for the overall governance of financial operations and the associated market risks at the Group level because:

- it is responsible for setting the Group’s market risk policies;
- it monitors the exposure to market risks at the centralized level;
- it manages market risks at the Parent Company level.

Within these organizational arrangements, the assumption/identification of market risks is the responsibility of the business units, which with the support of Risk Management monitor and analyze new risk components for risk positions already held, new types of business, developments in the financial market and the various combinations of financial instruments and markets in which the Group may be operating.

Risks positions are taken on by the trading and investment desks and are actively managed by them during the working day using appropriate position-keeping applications.

Front office staff operate with the various units and risk positions are assumed in compliance with the portfolio tree and the associated risk limits.

Coordination of the trading and investment desks is performed through the unit heads, each at his or her level in the hierarchy, who are responsible for ensuring compliance with the assigned limits.

The operational model for managing market risks at both the consolidated and individual levels is the responsibility of the Finance department, within which exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Treasury and Foreign Exchange*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

## Risk management processes

### *Identification of risks*

Operations in financial market, especially positions in the trading book, expose the Iccrea Banking Group to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

### *Risk measurement and assessment*

Risk Management, acting through the Market Risks unit, is the main actor within the Group in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

The Group uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

Measurement is centralized with the Risk Management unit and involves:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

At the operational level, the Iccrea Banking Group uses internal models for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- Probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
  - Deterministic metrics
  - Level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - Analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - Stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - Loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

## Probabilistic metrics

### Value at Risk (VaR)

To calculate VaR, 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 matrix 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.

## Deterministic metrics

### 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:

- A. PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- B. Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- C. IL01 (*sensitivity to inflation*): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- D. Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- E. CS01: a change of 1 basis point in credit spreads;
- F. Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- G. Delta1%: the change in market value in response to a change of 1% in equity prices;
- H. Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- I. Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- J. Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

### Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;

- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

### ***Stress testing and scenarios***

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

### ***Loss***

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

### ***- Risk prevention and attenuation***

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;



- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations).

The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

In addition to the backtesting noted earlier, the effectiveness management of market risk is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

At the operational process level, the Group has a complete system of arrangements and controls that help define the overall control model, which is set out and formalized in the risk management policy.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

#### *- Monitoring and reporting*

The second-level controls, carried out by Risk Management, are aimed at monitoring the Group's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators defined for managing financial risk. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of market risk indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the Parent Company's General Manager. In this context, a thorough discussion of risk developments increases awareness of the risks assumed (in line with defined profit targets) and therefore facilitates the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

#### *- Risk management and mitigation*

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

## QUANTITATIVE DISCLOSURES

### 1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate and price 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 and price risk sensitivity has been provided.

### 3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2 million in 1-day VaR calculated using a parametric method has been established. From the start of the year, the risk profile of all trading operations has never breached the RAS limit.

The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR has been €0.43 million, with a minimum of €0.12 million and a maximum of €1.314 million (registered on March 6, 2017), which is below the limit for that specific category of operations, which was €1.8 million for the head of Finance at Iccrea Banca and €2 million for the General Manager of Iccrea Banca. At December 29, 2017 the VaR was €0.15 million.

DAILY VAR ON TRADING BOOK	NOTIONAL	LIMIT	VAR
	29/12/2017		RISK PROFILE
Iccrea Banca	11,978	2.00	0.15

Figures in millions of euros at December 31, 2017

## 1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

### QUALITATIVE DISCLOSURES

#### A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

##### Governance and organizational model

The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca is the interface between the individual mutual banks and Group companies and domestic and international money and financial markets. More specifically, the Bank:

- performs treasury activities, managing the liquidity transferred to it by the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS market;
- ensures that the financial requirements of Group companies are met, raising funds within the mutual banking system and on financial markets;
- ensures, with the support of Risk Management, the monitoring and management of interest rate risk at the individual and consolidated levels, as well as compliance with the limits set during the strategic planning process.

The management of interest rate risk on the banking book is performed by the **Asset & Liability Management (ALM)** function, performed by the Finance unit of the Parent Company, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit of the Parent Company. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations;
- **Money Market operations**, which are performed by the Treasury and Foreign Exchange unit of the Parent Company. The latter is responsible for managing interest rate risk on the short-term banking book (up to 12 months) originated by unsecured operations and interest rate risk originated by secured operations.

The management of mismatching of interest rate risk generated by operations conducted by subsidiaries with customers is transferred to Iccrea Banca using intercompany funding/lending transactions with comparable maturities whose characteristics hedge the exposure to interest rate risk, in compliance with the risk limits set by the Parent Company.

## Risk management processes

### - Identification of risks

The ability to identify sources of interest rate risk and manage the short and medium/long-term exposure to such risk, while at the same time limiting potential declines in interest income, is crucial to ensuring profitability in line with the targets established in strategic planning.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: reprising risk, yield curve risk, basis risk and option risk.

### - Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach:** this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- **Economic value approach:** this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- **Repricing Gap:** this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII Sensitivity:** the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income in the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- **Duration Gap:** the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;

- **EVE Sensitivity:** the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests are conducted for the two metrics:

- **EVE Sensitivity:** using a full revaluation approach with the adoption of risk-free yield curves. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;
- **NII Sensitivity:** using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic “going concern” approach with a “constant balance sheet” view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each identified source of such risk in the banking book.

The scenarios used in the stress testing are based on both regulatory shocks and shocks defined internally.

Sample scenarios used for IRRBB stress testing include:

- **Parallel shocks:** parallel shocks to the yield curve in order to assess the impact on economic value and net interest income. based on various degrees of severity (e.g. changes of +/- 200 bps in the curve);
- **Non-parallel shocks:** non-parallel shocks to different notes of the yield curve shock in order to assess the impact on economic value and net interest income. based on various degrees of severity (steepening and flattening shocks);
- **Historical:** shocks defined internally on the basis of prudential assessments and historical analyses of observed rate variations.

#### *- Risk prevention and attenuation*

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework. The definition of this system, which distinguishes the Risk Management Framework, took account of the nature, objectives and complexity of operations.

The system of limits is defined by Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to it in its capacity of Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable ) consistent with the interest rate risk management model adopted.

The current policy provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels. Risk limits and additional metrics are also established to monitor the exposure of the individual business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the risk management policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;

- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls, which are intended to verify compliance with rules and procedures as well as internal and external regulations.

#### *- Monitoring and reporting*

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk on a daily basis, in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile as compared with the RAS/Risk Limit indicators. Risk Management, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with individual subsidiaries where specific allocation of indicators has been provided for.

Monitoring risk indicators is a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds. These activities therefore perform a control function for the continuous monitoring of all indicators with respect to assigned risk levels, signaling when risk profiles approach or breach the threshold/limit/tolerance levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/Risk Limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed through a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.<sup>1</sup> At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the Group Finance Committee, operating units, top management and boards of directors.

#### *- Risk management and mitigation*

The management and mitigation of risk seek to reconcile profitability with management of the risk to which the Group companies, and thus the Group, are exposed. The system is based on the following principles:

- Managing the overall profitability of the Group: the centralized management and control of developments in net interest income represent a key requirement of the Iccrea Banking Group's overall control system. That role is played by Iccrea Banca in exercising its functions of setting the strategic policy of the Group and coordinating the individual Group companies;
- Managing interest rate risk: funding and lending with supervised intermediaries, financial and intercompany activities involve normal parameter mismatches at the various maturities. The ability to manage short and long-term mismatches, while at the same time limiting potential decreases in net interest income, is of

<sup>1</sup> See. "Interest Rate Risk in the Banking Book Policy (IRRBB Policy)".

fundamental importance in ensuring that profitability is in line with the targets set in the strategic planning stage. Within the Group, the function of pooling parameters and managing rate mismatches is the responsibility of Iccrea Banca, which handles the centralized management of the exposure to interest rate risk by selecting market parameters (e.g. 3-month Euribor rather than 6-month Euribor) that appropriately reflect the actual risk associated with the products placed by the Group.

## 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 December 31, 2017 the following positions were hedged:

- 4 fixed-rate loans issued by Iccrea Banca Impresa, and hedged by means of an interest rate swap (IRS) with a nominal value of €7.6 million;
- 2 mixed-rate bond issued by Iccrea Banca and hedged with an IRS and an interest rate option (floor) with a nominal value of €365.1 million;
- 2 fixed-rate bonds issued by Iccrea Banca and hedged with IRS with a nominal value of €60 million;
- 4 fixed-rate bonds issued by Banca Sviluppato and hedged with IRS with a nominal value of €5.7 million;
- 3 treasury bonds (BTP) linked to European inflation, subscribed by Iccrea Banca, hedged with IRSs and options with a nominal value of €250 million;
- 1 treasury bond (BTP) linked to Italian inflation, subscribed by Iccrea Banca, hedged with IRSs and options with a nominal value of €100 million;
- 3 fixed-rate treasury bonds (BTPs), subscribed by Iccrea Banca, with a value of €260 million;
- 1 IMI Banca bond, subscribed by Iccrea Banca, hedged with IRS with a nominal value of €72 million;
- 1 SNAM Bond, subscribed by Iccrea Banca, hedged with IRS with a nominal value of €1.35 million;
- 11 fixed-rate deposits of Iccrea Banca hedged with overnight indexed swaps (OISs) with a nominal value of €754 million;
- 1 fixed-rate lease portfolio hedged with IRSs with a total nominal value of €72 million.

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

At December 31, 2017 a macrohedge was in place for a portfolio of fixed-rate lease receivables originated by Iccrea Banca Impresa with its customers, using IRSs with a nominal value of €78 million.

Effectiveness tests for such macrohedging were carried out using the Volatility Risk Reduction method (VRR).

## C. CASH FLOW HEDGING

The Group undertook the following cash flow hedging transactions:

- 4 dollar-denominated bonds issued by Iccrea Banca hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €72.5 million.



## QUANTITATIVE DISCLOSURES

### 1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

### 2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

SCENARIO	IMPACT ON ECONOMIC VALUE		IMPACT ON NET INTEREST INCOME AT 12 MONTHS	
	-100 bp	+100 bp	-100 bp	+100 bp
	-115.0	+121.1	-61.6	+62.8

Figures in millions of euros at December 31, 2017

## 1.2.3 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.

#### - Hedging of exchange rate risk

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduated by the importance of the currencies.

### QUANTITATIVE DISCLOSURES

#### 1. DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	Currency					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER
<b>A. Financial assets</b>	<b>127,161</b>	<b>6,350</b>	<b>12,504</b>	<b>5,967</b>	<b>51,093</b>	<b>12,835</b>
A.1 Debt securities	64,234	-	-	-	-	226
A.2 Equity securities	9,718	1,863	-	-	-	-
A.3 Loans to banks	40,900	4,487	11,267	5,967	46,586	12,609
A.4 Loans to customers	12,305	-	1,238	-	4,507	-
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>6,733</b>	<b>4,351</b>	<b>505</b>	<b>678</b>	<b>3,936</b>	<b>1,588</b>
<b>C. Financial liabilities</b>	<b>278,216</b>	<b>9,363</b>	<b>1,159</b>	<b>6,226</b>	<b>47,945</b>	<b>7,380</b>
C.1 Due to banks	204,792	9,267	1,159	6,140	47,917	7,376
C.2 Due to customers	751	95	-	86	28	4
C.3 Debt securities	72,673	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>	<b>12,751,146</b>	<b>4,406,152</b>	<b>1,550,738</b>	<b>1,312,841</b>	<b>611,215</b>	<b>165,468</b>
- Options	-	-	-	-	-	1,420
+ Long positions	-	-	-	-	-	1,420
+ Short positions	-	-	-	-	-	-
- Other derivatives	12,751,146	4,406,152	1,550,738	1,312,841	611,215	164,047
+ Long positions	6,438,247	2,203,267	769,527	656,256	302,339	80,325
+ Short positions	6,312,899	2,202,885	781,211	656,584	308,876	83,721
<b>Total assets</b>	<b>6,572,142</b>	<b>2,213,967</b>	<b>782,536</b>	<b>662,901</b>	<b>357,368</b>	<b>96,169</b>
<b>Total liabilities</b>	<b>6,591,165</b>	<b>2,212,248</b>	<b>782,370</b>	<b>662,810</b>	<b>356,821</b>	<b>91,102</b>
<b>Difference (+/-)</b>	<b>19,023</b>	<b>-1,720</b>	<b>-166</b>	<b>-91</b>	<b>-547</b>	<b>-5,067</b>

## 2. INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODS

There is no other information to report.

## 1.2.4 DERIVATIVES

### A. FINANCIAL DERIVATIVES

#### A.1 SUPERVISORY TRADING BOOK: END-PERIOD NOTIONAL AMOUNTS

	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>14,502,863</b>	-	<b>12,822,807</b>	-
a) Options	2,185,232	-	2,543,351	-
b) Swaps	12,295,873	-	10,026,088	-
c) Forwards	16,758	-	16,169	-
d) Futures	5,000	-	178,800	-
e) Other	-	-	58,399	-
<b>2. Equity securities and equity indices</b>	<b>11,918</b>	-	<b>22,688</b>	-
a) Options	10,811	-	12,119	-
b) Swap	-	-	-	-
c) Forwards	-	-	9,133	-
d) Futures	1,107	-	1,436	-
e) Other	-	-	-	-
<b>3. Foreign currencies and gold</b>	<b>15,339,302</b>	-	<b>4,630,676</b>	-
a) Options	5,904	-	15,761	-
b) Swap	5,003	-	-	-
c) Forwards	15,328,395	-	4,614,915	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>29,854,083</b>	-	<b>17,476,171</b>	-

## A.2 BANKING BOOK: END-PERIOD NOTIONAL AMOUNTS

### A.2.1 HEDGING

	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>2,633,972</b>	-	<b>6,260,145</b>	-
a) Options	680,100	-	538,100	-
b) Swaps	1,953,872	-	5,722,045	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and equity indices</b>	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Foreign currencies and gold</b>	<b>75,044</b>	-	<b>90,124</b>	-
a) Options	-	-	-	-
b) Swap	75,044	-	90,124	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>2,709,016</b>	-	<b>6,350,270</b>	-

## A.2.2 OTHER DERIVATIVES

	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>22,883</b>	-	<b>32,411</b>	-
a) Options	22,883	-	32,411	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and equity indices</b>	<b>8,593</b>	-	<b>18,475</b>	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forwards	8,593	-	18,475	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Foreign currencies and gold</b>	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>31,476</b>	-	<b>50,886</b>	-

### A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	Positive fair value			
	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Supervisory trading book</b>	<b>282,023</b>	-	<b>301,537</b>	-
a) Options	4,445	-	8,937	-
b) Interest rate swaps	181,774	-	266,080	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	95,787	-	26,463	-
f) Futures	17	-	56	-
g) Other	-	-	1	-
<b>B. Banking book – hedging</b>	<b>5,406</b>	-	<b>10,365</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	5,406	-	10,365	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking book – Other derivatives</b>	<b>1,042</b>	-	<b>2,152</b>	-
a) Options	1,042	-	2,152	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>288,471</b>	-	<b>314,054</b>	-

## A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE– BREAKDOWN BY PRODUCT

	Negative fair value			
	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Supervisory trading book</b>	<b>308,557</b>	-	<b>313,512</b>	-
a) Options	5,004	-	10,254	-
b) Interest rate swaps	203,628	-	286,632	-
c) Cross currency swaps	37	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	99,869	-	15,839	-
f) Futures	20	-	787	-
g) Other	-	-	-	-
<b>B. Banking book – hedging</b>	<b>52,501</b>	-	<b>63,339</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	52,501	-	63,339	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking book – Other derivatives</b>	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>361,057</b>	-	<b>376,851</b>	-



## A.5 OVER-THE-COUNTER FINANCIAL DERIVATIVES – SUPERVISORY TRADING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	Governments and Central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
<b>1) Debt securities and interest rates</b>	-	-	<b>32,525</b>	<b>27,720</b>	-	<b>1,070,221</b>	<b>147,221</b>
- notional value	-	-	31,012	27,295	-	1,042,660	146,407
- positive fair value	-	-	1,343	293	-	19,165	121
- negative fair value	-	-	68	-	-	3,685	679
- future exposure	-	-	102	132	-	4,711	14
<b>2) Equity securities and equity indices</b>	-	-	<b>6,553</b>	-	-	-	<b>727</b>
- notional value	-	-	6,247	-	-	-	658
- positive fair value	-	-	38	-	-	-	-
- negative fair value	-	-	28	-	-	-	69
- future exposure	-	-	240	-	-	-	-
<b>3) Foreign currencies and gold</b>	-	-	<b>3,491</b>	<b>11,142</b>	-	-	-
- notional value	-	-	3,433	10,945	-	-	-
- positive fair value	-	-	41	-	-	-	-
- negative fair value	-	-	8	88	-	-	-
- future exposure	-	-	9	109	-	-	-
<b>4) Other assets</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

## A.6 OVER-THE-COUNTER FINANCIAL DERIVATIVES – SUPERVISORY TRADING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

	Governments and Central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non- financial companies	Other
<b>1) Debt securities and interest rates</b>	-	-	<b>13,086,524</b>	<b>538,106</b>	-	-	-
- notional value	-	-	12,734,005	521,485	-	-	-
- positive fair value	-	-	156,716	8,300	-	-	-
- negative fair value	-	-	195,803	8,321	-	-	-
<b>2) Equity securities and equity indices</b>	<b>779</b>	-	<b>4,480</b>	-	-	-	-
- notional value	744	-	4,270	-	-	-	-
- positive fair value	35	-	210	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>3) Foreign currencies and gold</b>	-	-	<b>12,349,558</b>	<b>3,170,976</b>	-	-	-
- notional value	-	-	12,182,801	3,142,123	-	-	-
- positive fair value	-	-	85,995	9,807	-	-	-
- negative fair value	-	-	80,762	19,046	-	-	-
<b>4) Other assets</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

## A.7 OVER-THE-COUNTER FINANCIAL DERIVATIVES – BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	Governments and Central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non- financial companies	Other
<b>1) Debt securities and interest rates</b>	-	-	-	-	-	<b>17,108</b>	<b>7,080</b>
- notional value	-	-	-	1	-	16,234	6,648
- positive fair value	-	-	-	-	-	683	359
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	191	73
<b>2) Equity securities and equity indices</b>	-	-	-	<b>8,593</b>	-	-	-
- notional value	-	-	-	8,593	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3) Foreign currencies and gold</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>4) Other assets</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

## A.8 OVER-THE-COUNTER FINANCIAL DERIVATIVES – BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

	Governments and Central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non- financial companies	Other
<b>1) Debt securities and interest rates</b>	-	-	<b>2,691,879</b>	-	-	-	-
- notional value	-	-	2,633,972	-	-	-	-
- positive fair value	-	-	5,406	-	-	-	-
- negative fair value	-	-	52,501	-	-	-	-
<b>2) Equity securities and equity indices</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>3) Foreign currencies and gold</b>	-	-	<b>22,083</b>	<b>58,272</b>	-	-	-
- notional value	-	-	20,845	54,198	-	-	-
- positive fair value	-	-	151	1,202	-	-	-
- negative fair value	-	-	1,087	2,872	-	-	-
<b>4) Other assets</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

## A.9 RESIDUAL LIFE OF OVER-THE-COUNTER FINANCIAL DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and Up to 5 years	More than 5 years	Total
<b>A. Supervisory trading book</b>	<b>20,731,751</b>	<b>4,136,827</b>	<b>4,985,505</b>	<b>29,854,083</b>
A.1 Financial derivatives on debt securities and interest rates	5,390,111	4,127,991	4,984,762	14,502,863
A.2 Financial derivatives on equity securities and equity indices	7,675	3,500	744	11,918
A.3 Financial derivatives on exchange rates and gold	15,333,966	5,336	0	15,339,302
A.4 Financial derivatives on other assets	0	0	0	0
<b>B. Banking book</b>	<b>1,698,641</b>	<b>721,740</b>	<b>320,111</b>	<b>2,740,491</b>
B.1 Financial derivatives on debt securities and interest rates	1,695,408	641,336	320,111	2,656,855
B.2 Financial derivatives on equity securities and equity indices	3,233	5,360	0	8,593
B.3 Financial derivatives on exchange rates and gold	0	75,044	0	75,044
B.4 Financial derivatives on other assets	0	0	0	0
<b>31/12/2017</b>	<b>22,430,392</b>	<b>4,858,566</b>	<b>5,305,616</b>	<b>32,594,575</b>
<b>31/12/2016</b>	<b>13,775,219</b>	<b>5,875,727</b>	<b>4,226,381</b>	<b>23,877,327</b>

## A.10 OVER-THE-COUNTER FINANCIAL DERIVATIVES: COUNTERPARTY RISK/FINANCIAL RISK – INTERNAL MODELS

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

## B. CREDIT DERIVATIVES

### B.1 CREDIT DERIVATIVES: END-PERIOD NOTIONAL AMOUNTS

	Supervisory trading book		Banking book	
	Single name	Basket	Single name	Basket
<b>1. Purchases of protection</b>	-	-	-	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
<b>31/12/2017</b>	-	-	-	-
<b>31/12/2016</b>	-	-	-	-
<b>2. Sales of protection</b>	-	-	<b>15,000</b>	-
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	15,000	-
<b>31/12/2017</b>	-	-	<b>15,000</b>	-
<b>31/12/2016</b>	-	-	<b>15,000</b>	-

### B.2 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE FAIR VALUE -BREAKDOWN BY PRODUCT

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

### B.3 OVER-THE-COUNTER CREDIT DERIVATIVES: NEGATIVE FAIR VALUE – BREAKDOWN BY PRODUCT

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

#### B.4 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT COVERED BY NETTING ARRANGEMENTS

	Governments and Central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non-financial companies	Other
<b>Supervisory trading book</b>	-	-	-	-	-	-	-
<b>1. Purchases of protection</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2. Sales of protection</b>	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>Banking book</b>	-	-	15,000	-	-	-	-
<b>1. Purchases of protection</b>	-	-	15,000	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>2. Sales of protection</b>	-	-	-	-	-	-	-
- notional value	-	-	15,000	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

#### B.5 OVER-THE-COUNTER CREDIT DERIVATIVES: GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS COVERED BY NETTING ARRANGEMENTS

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

#### B.6 RESIDUAL LIFE OF CREDIT DERIVATIVES: NOTIONAL VALUES

	Up to 1 year	More than 1 year and Up to 5 years	More than 5 years	Total
<b>A. Supervisory trading book</b>	-	-	-	-
A.1 Credit derivatives with qualifying reference obligation	-	-	-	-
A.2 Credit derivatives with non-qualifying reference obligation	-	-	-	-
<b>B. Banking book</b>	-	-	15,000	15,000
B.1 Credit derivatives with qualifying reference obligation	-	-	-	-
B.2 Credit derivatives with non-qualifying reference obligation	-	-	15,000	15,000
<b>Total 31/12/2017</b>	-	-	15,000	15,000
<b>Total 31/12/2016</b>	-	-	15,000	15,000

#### B.7 CREDIT DERIVATIVES: COUNTERPARTY RISK/FINANCIAL RISK – INTERNAL MODELS

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

## C. FINANCIAL AND CREDIT DERIVATIVES

### C.1 OVER-THE-COUNTER FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE AND FUTURE EXPOSURE BY COUNTERPARTY

	Governments and Central banks	Other government agencies	Banks	Financial companies	Insurance undertakings	Non- financial companies	Other
<b>1) Bilateral agreements – financial derivatives</b>	-	-	473,177	42,284	-	-	-
- positive fair value	-	-	127,733	6,248	-	-	-
- negative fair value	-	-	212,036	19,526	-	-	-
- future exposure	-	-	133,408	16,510	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
<b>2) Bilateral agreements – credit derivatives</b>	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
<b>3) Cross product agreements</b>	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-



## 1.3 BANKING GROUP: LIQUIDITY RISK

### QUALITATIVE DISCLOSURES

#### A) General aspects, management and measurement of liquidity risk

Liquidity risk for the Iccrea Banking Group is the risk of not being able to discharge one's payment obligations and can take different forms depending on the source of that risk, which can be caused by:

- the inability to raise funds or efficiently discharge one's payment obligations at market prices (expected and unexpected outlays), i.e. incurring high funding costs, without jeopardizing the daily operations of the bank or its financial position (funding liquidity risk);
- the existence of limitations on the liquidation of assets or incurring capital losses (owing to insufficient liquidity in the market or disruption of the market) following their liquidation (market liquidity risk).

The framework for governing and managing liquidity risk within the Iccrea Banking Group is designed to ensure the sound and prudent management of liquidity and the associated risk, and has the following objectives:

- to enable the Bank to remain solvent in both "the normal course of business" and in a liquidity crisis;
- to ensure that the Bank constantly holds an appropriate amount of liquid assets in relation to the limits it has set and with respect to internal and external constraints;
- to ensure the compliance, in accordance with the principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

That framework is based on the centralization of those activities. The Parent company is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis by the Parent Company, which performs the following functions:
  - managing liquid assets and funding in euros and foreign currencies over a time horizon of 12 months for all the Group companies included within the scope of liquidity risk management activities;
  - managing operations in repurchase transactions and pooling with the central bank, market counterparties and the mutual banks;
  - funding the securities portfolio at the Group level;
  - managing the reserve requirements (on its own behalf and for Group companies subject to reserve requirements as well as centralized management of the requirement for mutual banks who request that service);
  - managing open market operations with the ECB.
- the management of structural liquidity is centralized with the Parent Company, which takes corrective action to ensure that medium/long-term assets and liabilities are balanced appropriately at both the individual and consolidated level, while at the same time seeking to optimize the cost of funding and:
  - performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc.);

- structuring and issuing debt instruments on the market.

All the Group companies included within the scope of liquidity risk management activities have direct access to the interbank market in accordance with the procedures established by the Parent Company. They contribute to creating short-term liquidity imbalances in their transactions with customers and transfer them to Iccrea Banca through reciprocal current accounts, time deposits, bond issues and other technical forms.

Liquidity risk is identified and monitored by defining and monitoring the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- **operational liquidity** – divided into two complementary levels:
  - *intraday and very short-term liquidity*: monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - *short-term liquidity*: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- **structural liquidity** - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operating maturity ladder is constructed in accordance with the rules issued by the Bank of Italy as part of its periodic monitoring and it comprises a time horizon of up to 12 months. The Group's liquidity profile is represented in five main sections:

- transactions with institutional counterparties, which includes positions with the central bank, market counterparties and the interbank market, assuming no roll over of maturing positions;
- transactions with Corporate/Large Corporate customers;
- treasury forecasts;
- securities and finance operations;
- counterbalancing capacity.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinancable securities and bank loans);

- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder used by the Group in monitoring the medium/long-term liquidity position is designed to monitor the balance of the funding profile and control maturity transformation (also on the basis of the strategic instructions issued by management). This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" bonds.

The money market position is measured on a daily basis by quantifying the liquidity reserves and covering any deficit in the prospective liquidity balance at 1 and 30 days with those reserves.

The overall system of limits and liquidity risk monitoring indicators was recently revised as part of the updating of the Group's RAS and the adjustment of the Liquidity Policy to the RAS.

The process of monitoring the liquidity indicators defined by the Group is structured and supplemented with the liquidity risk governance and management model adopted by the Group and the subsidiaries. Liquidity risk is monitored by the Risk Management unit of the Parent Company. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits, as well as on measuring additional metrics.

The Risk Management unit of the Parent Company, with the support of the respective decentralized organizational units, continuously coordinates and supervises the risk profile monitoring activities associated with the individual subsidiaries (where these have been specifically allocated liquidity risk indicators). As part of the liquidity risk management and monitoring activities carried out by Risk Management, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

#### *STRESS TEST FRAMEWORK*

The Group liquidity position is monitored in the normal course of business and under stress conditions. For the latter, the Group has defined a stress test framework on the basis of the indicators that characterize the Liquidity Risk Framework. In accordance with the rules established by the supervisory authorities, that framework has been defined at the methodological level with the intention of extending it to other processes on the basis of a differentiated calendar and with severity levels connected to the main related processes (RAF, ILAAP, Recovery Plan).

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness. Accordingly, the objectives of the stress testing are:

- to verify the Group's capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits determines the maintenance of sufficient liquidity reserves to enable the Group to discharge planned obligations over the time horizon envisaged in the stress scenario.

The types of stress test that characterize the framework provide for the occurrence of severe but plausible events (scenarios) that can be classified into three categories:

- **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and, consequently, the Iccrea Banking Group;
- **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Iccrea Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimate inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchange rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset at the Group level.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of assets to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

## QUANTITATIVE DISCLOSURES

### Distribution of financial assets and liabilities by residual maturity

#### CURRENCY 242 - EURO

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
<b>On-balance-sheet assets</b>	<b>2,398,304</b>	<b>1,723,259</b>	<b>1,302,437</b>	<b>1,675,669</b>	<b>2,918,224</b>	<b>2,177,898</b>	<b>3,106,093</b>	<b>16,527,220</b>	<b>3,813,467</b>	<b>979,542</b>
A.1 Government securities	4	-	100,384	15,005	272,990	171,531	581,854	1,328,933	315,648	-
A.2 Other debt securities	17,262	-	8	249	7,119	8,290	24,183	280,472	160,037	400
A.3 Units in collective investment undertakings	509,491	-	-	-	-	-	-	-	-	-
A.4 Loans	1,871,546	1,723,259	1,202,045	1,660,416	2,638,115	1,998,078	2,500,056	14,917,816	3,337,783	979,142
- banks	881,035	734,662	230,133	710,851	1,626,377	1,318,282	1,266,737	9,723,027	13,660	976,297
- customers	990,512	988,597	971,913	949,565	1,011,738	679,795	1,233,319	5,194,789	3,324,122	2,845
<b>On-balance-sheet liabilities</b>	<b>5,449,960</b>	<b>2,058,876</b>	<b>900,549</b>	<b>561,929</b>	<b>3,943,118</b>	<b>1,783,112</b>	<b>1,408,132</b>	<b>18,676,907</b>	<b>421,393</b>	<b>4,861</b>
B.1 Deposits and current accounts	4,902,814	1,386	3,600	187,769	292,994	157,668	356,728	517,407	-	-
- banks	3,303,261	-	1,006	180,642	275,104	135,540	327,438	506,850	-	-
- customers	1,599,553	1,386	2,594	7,127	17,890	22,128	29,289	10,557	-	-
B.2 Debt securities	3,622	2,828	9,811	12,500	1,119,385	125,234	335,492	3,876,872	219,090	-
B.3 Other liabilities	543,524	2,054,662	887,138	361,660	2,530,739	1,500,210	715,912	14,282,629	202,303	4,861
<b>Off-balance-sheet transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
C.1 Financial derivatives with exchange of principal	-	5,047,566	2,536,802	219,310	2,462,950	46,340	8,691	192,682	58,334	-
- long positions	-	2,578,984	1,268,235	121,702	1,123,741	23,190	5,705	83,590	26,117	-
- short positions	-	2,468,582	1,268,567	97,608	1,339,209	23,150	2,986	109,092	32,217	-
C.2 Financial derivatives without exchange of principal	409,285	799	191	30	4,399	3,230	6,776	-	-	-
- long positions	189,338	771	41	30	1,009	2,751	1,430	-	-	-
- short positions	219,947	28	150	-	3,390	479	5,346	-	-	-
C.3 Deposits and loans to receive	-	(439,057)	-	-	(1,185,892)	(100,142)	436,057	1,289,034	-	-
- long positions	-	(439,057)	-	-	(1,235,352)	(588,893)	-	(1,357,752)	-	-
- short positions	-	-	-	-	49,460	488,751	436,057	2,646,786	-	-
C.4 Irrevocable commitments to disburse funds	804,827	-	-	1,444	960	926	5,818	130,335	243,756	-
- long positions	211,613	-	-	1,444	960	926	5,818	130,335	243,756	-
- short positions	593,214	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

## CURRENCY 999 – OTHER

	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity
<b>On-balance-sheet assets</b>	<b>33,173</b>	<b>16,250</b>	<b>25,433</b>	<b>22,631</b>	<b>15,558</b>	<b>11,259</b>	<b>6,219</b>	<b>50,563</b>	<b>27,604</b>	-
A.1 Government securities	-	38	-	131	171	430	770	29,691	14,511	-
A.2 Other debt securities	-	-	1	1	123	94	218	10,419	10,357	-
A.3 Units in collective investment undertakings	299	-	-	-	-	-	-	-	-	-
A.4 Loans	32,874	16,212	25,433	22,499	15,264	10,736	5,231	10,453	2,736	-
- banks	32,330	16,212	25,433	22,499	14,887	9,513	1,052	27	-	-
- customers	544	-	-	-	377	1,223	4,179	10,425	2,736	-
<b>On-balance-sheet liabilities</b>	<b>138,405</b>	<b>38,261</b>	<b>33,615</b>	<b>35,283</b>	<b>13,726</b>	<b>10,401</b>	<b>9,656</b>	<b>72,907</b>	<b>45</b>	-
B.1 Deposits and current accounts	138,404	38,261	33,615	28,276	11,481	9,768	8,827	-	-	-
- banks	137,571	38,261	33,615	28,276	11,481	9,768	8,827	-	-	-
- customers	833	-	-	-	0	-	-	-	-	-
B.2 Debt securities	-	-	-	-	285	549	829	72,782	-	-
B.3 Other liabilities	1	-	-	7,007	1,960	83	-	125	45	-
<b>Off-balance-sheet transactions</b>	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	15,116,739	2,923,628	188,651	2,441,837	46,452	9,468	83,979	3,825	-
- long positions	-	7,503,810	1,462,019	57,712	1,328,784	23,351	3,611	79,212	1,873	-
- short positions	-	7,612,929	1,461,609	130,939	1,113,053	23,101	5,857	4,767	1,952	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	1,289	-	-	-	-	-	-	-	-	-
- short positions	1,480	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive	-	-	-	-	-	-	-	-	-	-
- long positions	-	(4,686)	-	-	-	-	-	-	-	-
- short positions	-	4,686	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	6,110	-	-	-	-	-	-	-	-
- short positions	-	6,110	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

## 1.4 BANKING GROUP: OPERATIONAL RISKS

### QUALITATIVE DISCLOSURES

#### A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISK

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

In view of the operations that characterize the Iccrea Banking Group, it is exposed to operational risks across the entire organization.

Within the regulatory framework, the deregulation and the globalization of financial services, together with the progressive refinement of the financial technology supporting transactions, are making the Group's activities, and thus the associated operational risk engendered, increasingly complex.<sup>2</sup> In the absence of appropriate controls, the growing use of highly automated technology under way in the Group can transform the risk of manual errors and data processing errors into system malfunctions.

In addition, the growing use of electronic money and e-commerce generates other potential risks (or example, internal and external fraud, system security, customer data processing and IT risks) whose comprehensive understanding, management and mitigation represents a strategic and enabling factor in the development of the Group's business.

In addition, the presence of banks and financial companies in the Group, delivering services on a mass scale (the mutual banking system) to the public makes it necessary to constantly maintain adequate internal controls, both preventive and corrective, with the increasing risk of rules violations, incurring penalties, etc.

The various types of operational risk to which the Iccrea Banking Group is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the countless national and international regulations to which the Group is subject.

#### A. GOVERNANCE AND ORGANIZATIONAL MODEL

The organizational model adopted by the Iccrea Banking Group to supervise and manage operational risk is structured as follows:

- an Operational & IT Risk Management unit was established at the Parent Company, reporting to the CRO area, which handles operational and IT risks at the Group level, acting as a specialized hub responsible for providing guidance, coordination and technical support to the various Risk Management units of the companies in the Banking Group;
- the Risk Management units of the banking/financial subsidiaries report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

With regard current governance arrangements, the Risk Committee of the Board of Directors provides support to that body, engaging in strategic supervision of risks and the internal control system, including the frameworks for operational risk and IT risk.

<sup>2</sup> See BIS, "Sound practices for the management and supervision of operational risk", February 2013;

In particular, the Risk Committee:

- supports activities to verify the correct implementation of Group strategies, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and acquiring the necessary documentation for the evaluation of management and mitigation actions for the risks involved;
- conducts a preliminary review of the annual activity programs and reports of the Operational & IT Risk Management unit submitted to the Board of Directors;
- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

## B. OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the "Risk Management Process", the framework is structured into the following phases:

- **Identification of risks (knowledge):** a set of processes, methods and tools to identify operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- **Evaluation/measurement of identified risks (awareness):** processes, methods and tools for assessing/measuring Group operational risks.
- **Risk prevention and mitigation (strategy):** processes, methods and tools for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- **Monitoring and reporting (tracking and control):** processes, methods and tools to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- **Risk management and mitigation (reaction and proactivity):** processes, methods and tools to support the management of developments in operational risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk, in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

### - IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Banking Group uses the Basic Indicator Approach (BIA), which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

For the purpose of the internal operational risk management process, in 2017 an evolutionary revision of the operational risk management framework of the was conducted in order to introduce a "risk factor driven" approach in which the economic valuation component of the impact of threats/events is identified as the result of



an assessment process that seeks to identify significant malfunctions and enable their removal. In addition, during the year activities were completed for the evolution of the Group's IT Risk Management framework in order to integrate it more fully within the new Operational Risk Management framework and render explicit its integration with the assessment of cyber risk.

*- RISK PREVENTION AND ATTENUATION*

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address this risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company and the individual subsidiaries. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF).

*- RISK MANAGEMENT AND MITIGATION*

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

*- MONITORING AND REPORTING*

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

The Operational & IT Risk Management unit prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board of Directors, senior management, operating units).

## QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is "gross income".

In particular, the capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €92,577 thousand.

RELEVANT INDICATOR	PERIODO	VALUE
- at December 31, 2017	T	611,575
- at December 31, 2016	T-1	599,447
- at December 31, 2015	T-2	640,517
<b>Relevant indicator average</b>		<b>617,180</b>
<b>Regulatory coefficient</b>		<b>15%</b>
<b>Capital requirement</b>		<b>92,577</b>

## **SECTION 2 – RISKS OF INSURANCE UNDERTAKINGS**

No information to report.

## **SECTION 3 – RISKS OF OTHER ENTITIES**

The scale of the risks to which “Other entities” are exposed is not material. Accordingly, this section has not been prepared.



## **PART F**

### Information on consolidated capital



## SECTION 1 – CONSOLIDATED CAPITAL

### A. QUALITATIVE DISCLOSURES

Consolidated capital is managed by centralized units of Iccrea Banca, through the definition of a set of internal policies and processes that ensure dynamic equilibrium and appropriate consistency between the Group's overall capital resources, the range of risks the Group has assumed or intends to assume, and the targets for growth in size and profitability as specified in the strategic planning process.

With a view to achieving sustainable and balanced growth, the Iccrea Banking Group continues to pursue capital adequacy through careful management of both regulatory requirements (First Pillar) and operational constraints (Second Pillar – ICAAP). In particular, the Group's compliance with capital adequacy requirements is ensured:

- for the First Pillar, through the management and monitoring of regulatory capital, so as to ensure compliance with the minimum statutory capitalization limits, so as to be able to handle with the risks typical of the banking business;
- for the Second Pillar, through a process that controls current and prospective capital adequacy, which in addition to First Pillar risks also considers other material risks that affect or could affect the Group's operations, in order to determine an adequate level of internal capital in relation to the overall risk exposure.

Accordingly, management of financial soundness at the consolidated level is structured in a dynamic process, which is managed on both an ongoing basis in accordance with the corporate objectives set out in the strategic planning process (annual budget, three-year business plan) and on a non-recurring basis in conjunction with extraordinary transactions (acquisitions, mergers, asset disposals) that modify the composition or scope of the Group's operations.

**B. QUANTITATIVE DISCLOSURES****B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY**

	<b>Banking Group</b>	<b>Insurance undertakings</b>	<b>Other entities</b>	<b>Consolidation eliminations and adjustments</b>	<b>31/12/2017</b>
<b>1. Share capital</b>	2,083,491	-	36,128	(916,494)	<b>1,203,125</b>
<b>2. Share premium reserve</b>	22,746	-	-	(17,535)	<b>5,211</b>
<b>3. Reserves</b>	450,271	-	6,313	(66,872)	<b>389,712</b>
<b>4. Equity instruments</b>	-	-	-	-	-
<b>5. (Treasury shares)</b>	(30,847)	-	-	-	<b>(30,847)</b>
<b>6. Valuation reserves:</b>					
- Financial assets available for sale	18,851	-	-	(847)	<b>18,004</b>
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(1,079)	-	-	-	<b>(1,079)</b>
- Foreign exchange differences	-	-	-	-	-
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(3,249)	-	(188)	-	<b>(3,437)</b>
- Share of valuation reserves of equity investments accounted for using equity method	7,754	-	-	-	<b>7,754</b>
- Special revaluation laws	52,334	-	-	-	<b>52,334</b>
<b>7. Net profit (loss) for the period</b>	64,617	-	(2,634)	(26,479)	<b>35,504</b>
<b>Shareholders' equity</b>	<b>2,664,889</b>	-	<b>39,619</b>	<b>(1,028,227)</b>	<b>1,676,281</b>

The table above reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Banking Group" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the "Banking Group", are measured using the equity method here;
- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.



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

	Banking Group		Insurance undertakings		Other entities		Consolidation eliminations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	8,003	(1,870)					(836)		7,167	(1,870)
2. Equity securities	12,490	(84)							12,490	(84)
3. Units in collective investment undertakings	314	(2)					(9)		306	(2)
4. Loans									0	0
<b>Total at 31/12/2017</b>	<b>20,808</b>	<b>(1,956)</b>					<b>(845)</b>	<b>-</b>	<b>19,963</b>	<b>(1,956)</b>
<b>Total at 31/12/2016</b>	<b>24,842</b>	<b>(4,013)</b>					<b>(1,293)</b>	<b>-</b>	<b>23,550</b>	<b>(4,013)</b>

## B.3 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Units in collective investment undertakings	Loans
<b>1. Opening balance</b>	<b>4,326</b>	<b>14,627</b>	<b>595</b>	<b>-</b>
<b>2. Increases</b>	<b>13,023</b>	<b>2,311</b>	<b>558</b>	<b>-</b>
2.1 Fair value gains	9,982	2,311	212	-
2.2. Reversal to income statement of negative reserves	3,041	-	-	-
- from impairment	-	-	-	-
- from realization	3,041	-	-	-
2.3 Other changes	-	-	347	-
<b>3. Decreases</b>	<b>12,052</b>	<b>4,533</b>	<b>837</b>	<b>-</b>
3.1 Fair value losses	4,093	85	56	-
3.2 Impairment adjustments	-	-	-	-
3.3 Reversal to income statement of positive reserves: from realization	7,959	4,448	667	-
3.4 Other changes	-	-	115	-
<b>4. Closing balance</b>	<b>5,297</b>	<b>12,405</b>	<b>315</b>	<b>-</b>

## B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	31/12/2017	
	POSITIVE RESERVE	NEGATIVE RESERVE
1. Gain (loss) from changes in financial assumptions	-	-
2. Gain (loss) from passage of time	45	26
<b>TOTAL</b>	<b>45</b>	<b>26</b>

## SEZIONE 2 – OWN FUNDS AND CAPITAL RATIOS

### 2.1 SCOPE OF APPLICATION

As from January 1, 2014, the new regulatory framework for banks and investment firms is composed of:

- Regulation (EU) no. 575/2013 (“Capital Requirement Regulation”): the regulation, which took immediate effect in the EU Member States, establishes new rules concerning own funds, minimum capital requirements, counterparty risk, liquidity risk, leverage and disclosure;
- Directive no. 2013/36/EU (“Capital Requirement Directive”): the directive has been transposed into national law and contains provisions for determining capital reserves, the prudential control process, corporate governance rules and remuneration, and administrative penalties.

In implementing the Directive, the Bank of Italy issued Circular no. 285/2013 “Provisions for the prudential supervision of banks”, which is divided into three parts:

- the first part contains secondary provisions for which the Bank of Italy is responsible that are necessary for the transposition of Directive 2013/36/EU;
- the second part contains measures implementing Regulation (EU) no. 575/2013, specifically through the exercise of national discretion;
- the third part sets out provisions that, while not harmonized at the European level, are needed to align the Italian supervisory system with the best practices and requirements established by international bodies, include the Core Principles of the Basel Committee.

The primary changes introduced with the new regulatory framework are:

- with regard to the first pillar, steps have been taken to improve the quality of regulatory capital and raise the minimum capital requirements. More specifically, with regard to capital quality, the new framework defines the concept of Common Equity Tier 1, which essentially corresponds to ordinary shares and earnings reserves. Furthermore, additional reserves were introduced, relating to capital conservation, countercyclical buffers and buffers for systematically important banks (G-SII buffer or O-SII buffer). A limit was placed on leverage (including off-balance-sheet exposures) to restrict the growth in system-wide leverage. Finally, Basel III contains new requirements and systems for monitoring liquidity risk centering around a short-term liquidity requirement (Liquidity Coverage Ratio – LCR) and a longer-term structural stability rule (Net Stable Funding Ratio – NSFR);
- with regard to the second pillar, emphasis was placed on the importance of the following in terms of the adequacy of the prudential supervision process:
  - corporate governance structure: the regulatory requirements concerning the role, qualification and composition of the management bodies were strengthened. These bodies and senior management are required to have a more informed understanding of the adequacy of the organizational structure and the overall risk exposure of the bank and/or the related banking group;
  - the internal control systems of intermediaries: company control functions play a decisive role in ensuring the stability of individual institutions and the banking system as a whole. More specifically, special provisions have been issued concerning: the recognition of risks associated with off-balance-sheet assets and securitizations, the independence of the heads of the function, the valuation of assets and stress testing, and remuneration and incentive systems.
- with regard to the third pillar, the new rules introduce:
  - enhanced transparency requirements regarding securitization exposures, information on the composition of regulatory capital and on the methods used by the bank to calculate the capital ratios;
  - a requirement for annual disclosure of information concerning profit/loss before taxes, the amount of tax on such profit/loss and government support received.

- an obligation to disclose the leverage ratio.

Within the scope of the discretion granted national governments by the new CRR, the Iccrea Banking Group notified the Bank of Italy that it has chosen to exercise the option to not include unrealized gains and losses on exposures to central government departments classified under “financial assets available for sale” (IAS 39) in the calculation of own funds. Articles 14 and 15 of Regulation (EU) no. 445 of March 14, 2016 on the exercise of options and discretions available in Union law<sup>1</sup> established that as from October 1, 2016 entities shall also include unrealized gains and losses in respect of exposures to central governments classified in the “available for sale” category in the calculation of own funds in the following percentages:

- unrealized losses: inclusion of 80% until December 31, 2017;
- unrealized gains: removal of 20% until December 31, 2017.

## 2.2 OWN FUNDS

### A. QUALITATIVE DISCLOSURES

Total own funds are calculated as the algebraic sum of a number of positive and negative components that are allowed, with or without restrictions as the case may be, depending on the capital quality of each. Specifically, the total own funds of an institution are the sum of its Tier 1 capital (Common Equity Tier 1 + Additional Tier 1) and its Tier 2 capital. The components that make up the various categories are described below.

#### 1. Common Equity Tier 1 (CET1)

Common Equity Tier 1 of the Iccrea Group consists primarily of the following positive components:

- fully paid-up capital instruments;
- share premium accounts related to the above instruments;
- other reserves including retained earnings;
- accumulated other comprehensive income: this item includes reserves in respect of assets available for sale, actuarial loss reserves, cash flow hedge reserve, revaluation reserve and the portion of the valuation reserves of equity investments accounted for using the equity method.
- permitted non-controlling interests.

Negative CET1 components mainly include:

- direct, indirect or synthetic holdings in CET1 equity instruments;
- loss for the period;
- goodwill net of the associated deferred tax liabilities;
- other intangible assets net of the associated deferred tax liabilities;
- deduction of deferred tax assets relying on future profitability and not arising from temporary differences (unused tax credits for ACE benefit and tax losses);

The CET1 above is adjusted by applying the following prudential filters:

- filters connected with the cash flow hedge reserve for financial instruments that are not measured at fair value;

<sup>1</sup> As part of the national discretionality provided for in the CRR in force since January 1, 2014, the Iccrea Group had notified the Bank of Italy that it was exercising the option of not including unrealized gains and losses on exposures to central government classified in the “financial assets available for sale” category of IAS 39.

- filters connected with the net cumulative unrealized gain of financial liabilities measured at fair value that result from changes in its credit risk;
- filters associated with additional value adjustments.

Transitional adjustments to CET1 include:

- the exclusion of the unrealized gains on AFS securities;
- the positive filter for negative actuarial reserves (IAS 19);
- the filter for the inclusion of non-controlling interests subject to transitional provisions;
- the filter for the deduction of deferred tax assets relying on future profitability and not arising from temporary differences.

## 2. Additional Tier 1

Additional Tier 1 capital is represented by non-controlling interests in T1 instruments of the subsidiary Banca Sviluppo, included in consolidated own funds, to meet the prudential requirements for the individual subsidiary pursuant to Article 85 of the CRR.

## 3. Tier 2

Tier 2 capital is composed of subordinated liabilities issued by the Parent Company, Iccrea Banca S.p.A., and the non-controlling interests in T2 instruments issued by Iccrea Banca Impresa and Banca Sviluppo. The relative amount, calculated net of the Iccrea Group's direct, indirect or synthetic holdings in these instruments, is reduced by the theoretical amortization calculated pursuant to Article 64 of Regulation (EU) no. 575/2013.

This item includes the following transitional adjustments:

- a national positive filter introduced by Bank of Italy Circular no. 285 equal to 20% of 50% of the unrealized profits on AFS securities other than debt instruments issued by the central governments of EU countries;
- a positive filter for including non-controlling interests in T2 instruments issued by subsidiaries subject to transitional provisions.

**B. QUANTITATIVE DISCLOSURES**

	31/12/2017	31/12/16
<b>A. Common Equity Tier 1 (CET1) capital before application of prudential filters</b>	<b>1,571,986</b>	<b>1,584,954</b>
of which CET1 instruments affected by transitional provisions	-	-
<b>B. CET 1 prudential filters (+/-)</b>	<b>(2,475)</b>	<b>(3,058)</b>
<b>C. CET1 gross of deductible elements and the effects of the transitional provisions (A +/- B)</b>	<b>1,569,511</b>	<b>1,581,896</b>
<b>D. Elements to be deducted from CET1</b>	<b>(19,368)</b>	<b>33,229</b>
<b>E. Transitional provisions - Impact on CET1 (+/-), including non-controlling interests affected by transitional provisions</b>	<b>4,919</b>	<b>6,672</b>
<b>F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)</b>	<b>1,555,062</b>	<b>1,555,339</b>
<b>G. Additional Tier 1 (AT1) capital gross of deductible elements and the effects of the transitional provisions</b>	<b>5,661</b>	<b>5,837</b>
of which AT1 instruments affected by transitional provisions	-	-
<b>H. Elements to be deducted from AT1</b>	-	-
<b>I. Transitional provisions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 as a result of the transitional provisions</b>	-	-
<b>L. Total Additional Tier 1 (AT1) capital (G - H +/- I)</b>	<b>5,661</b>	<b>5,837</b>
<b>M. Tier 2 (T2) capital gross of deductible elements and the effects of the transitional provisions</b>	<b>136,225</b>	<b>138,569</b>
of which Tier 2 instruments affected by transitional provisions	-	-
<b>N. Elements to be deducted from T2</b>	-	-
<b>O. Transitional provisions - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 as a result of the transitional provisions</b>	<b>1,385</b>	<b>3,030</b>
<b>P. Total Tier 2 (T2) capital (M - N +/- O)</b>	<b>137,610</b>	<b>141,599</b>
<b>Q. Total own funds (F + L + P)</b>	<b>1,698,333</b>	<b>1,702,775</b>

The own funds reported above, in the absence of authorization for their inclusion from the ECB pursuant to Articles 4 and 5 of Decision (EU) 656/2015, do not include profit for the year net of the foreseeable dividend: the impact of that component is estimated at €19.4 million.

## TRANSITIONAL PROVISIONS

The transitional adjustments of CET1 can be summarized as follows:

- gains on the debt securities of EU governments classified as AFS were sterilized in the amount of €2.4 million (of which €1.5 million attributable to companies accounted for using the equity method);
- gains on securities other than those of EU governments classified as AFS were sterilized in the amount of €2.6 million (mainly equity securities and units in CIUs);
- actuarial losses on defined benefit plans were neutralized in the amount of €1.2 million (see CRR, Part Ten, Transitional provisions, Section 3, Art. 473);
- minority interests in consolidated subsidiaries not subject to the CRR, recognized pursuant to CRR, Part Ten, Transitional provisions, Section 4, Art. 479, amounted to €5 million;
- the deduction of deferred tax assets relying on future profitability and not arising from temporary differences was sterilized in the amount of €3.8 million (see Article 469, paragraph 1.a) and Article 478, paragraph 1 of the CRR).

Transitional adjustments of T2 mainly regard positive valuation reserves on non-EU government securities or on equity securities and units in CIUs were recognized in T2 capital in the amount of €1.4 million pursuant to Art. 481 of the CRR and Part Two, Chapter 14, of Bank of Italy Circular no. 285.

## PRUDENTIAL FILTERS

Tier 1 capital was adjusted by the amount of the following prudential filters:

- €1.079 million to exclude from the cash flow hedge reserve the amount in respect of asset/liability positions not measured at fair value;
- €43 thousand to sterilize the distortive effects of the fair value measurement of our own liabilities with regard to the component attributable to changes in our credit standing;
- €(3.6) million in additional value adjustments (CRR Art. 34 and Part Two, Section 3, Art. 105): the latter were calculated using the simplified approach set out in EBA/RTS/2014/06 of March 31, 2014; for entities for which the sum of the absolute value of fair valued assets/liabilities<sup>2</sup> is less than €15 billion, the additional value adjustments are equal to 0.1% of that aggregate.

## DEDUCTIONS WITH THRESHOLD EXEMPTIONS

The Iccrea Group did not make any deductions with threshold exemptions;<sup>3</sup> accordingly, the elements indicated above were risk weighted as follows:

- deferred tax assets and significant investments in the equity instruments of other financial sector entities: a risk weight of 250%;
- non-significant investments in the equity instruments of other financial sector entities: a risk weight of 100%.

<sup>2</sup> This does not include assets and liabilities measured at fair value whose change in value is not included in the calculation of CET1.

<sup>3</sup> The regulations provide for threshold exemptions for certain deductions:

- deductions with a threshold of exemption 10% of CET1 calculated in accordance with Art. 48, paragraph 1, point a, of the CRR:
  - a. deferred tax assets that are dependent on future profitability and arise from temporary differences;
  - b. significant investments in the equity instruments of other financial sector entities;
- deductions with a threshold exemption of 17.65% of CET1 calculated in accordance with Art. 48, paragraph 2, point b, of the CRR: the aggregate of the above elements below the first threshold of 10%;
- deductions with a threshold exemption of 10% of CET1 calculated in accordance with Art. 46 of the CRR: non-significant investments in the equity instruments of other financial sector entities.

## 2.3 CAPITAL ADEQUACY

### A. QUALITATIVE DISCLOSURES

Under the provisions of prudential supervisory regulations (Circular no. 285 of December 17, 2013 as updated), the Banking Group must constantly maintain the following minimum capital to meet the risks typical of banking and financial activity (credit and counterparty risk, market risk and operational risk):

- a CET 1 Ratio of 4.5%;
- a Tier 1 Ratio of 6%;
- a Total Capital Ratio of 8%.

The capital ratios are calculated by setting the various levels of regulatory capital against the overall exposure to risk: the consolidated requirement is made up of the sum of the individual requirements of the Banking Group companies, excluding exposures arising from intragroup transactions used in calculating credit, counterparty and regulatory risks.

The minimum requirements are supplemented by additional capital buffers, which have been imposed to give banks high quality capital to be used in moments of market strains in order to prevent malfunctions in the banking system and interruptions in the supply of credit. These buffers include:

- the Capital Conservation Buffer (CCB): consisting of CET 1, it represents an additional requirement of 1.25%;<sup>4</sup>
- the Countercyclical Capital Buffer: also consisting of common equity, it must be accumulated in periods of economic growth to cope with possible future losses, using a specific ratio established on a national basis. On September 22, 2017, the Bank of Italy, in its capacity as the designated authority, issued a notice maintaining the countercyclical capital buffer ratio for the fourth quarter of 2017 at 0% for exposures to Italian counterparties, unchanged on previous quarters. The specific countercyclical capital buffer ratio for the Bank is equal to the weighted average of the countercyclical ratios applicable in the various countries in which the Bank has significant credit exposures;
- the buffers for Global & Other Systemically Important Institutions (G-SII & O-SII): both consist of CET 1 and directly regard Global & Other Systemically Important Institutions as identified by the Bank of Italy in Italy.

Accordingly, given the predominantly national nature of the Group's operations, the capital requirements including the capital buffers for 2016 were: a Common Equity Tier 1 ratio of 5.75%, a Tier 1 ratio of 7.25% and a Total Capital Ratio of 9.25%.

At December 31, 2017, the Iccrea Group easily exceeded the regulatory minimums:

- the CET1 ratio was 12.12% (12.04% in 2016);
- the Tier 1 ratio was 12.15% (12.08% in 2016);
- the Total Capital ratio was 13.23% (13.18% in 2016).

In addition, following the Supervisory Review and Evaluation Process (SREP), as announced by the ECB in December 2016, the Iccrea Group is required to maintain a Total Capital ratio for 2017 of 9.5% (1.5% over the regulatory minimum, composed entirely of CET1).

<sup>4</sup> With the publication of the 18th update of Circular n. 285, the Bank of Italy modified the rules governing the Capital Conservation Buffer to bring the national regulations into line with those in the majority of euro-area countries and ensure equality of treatment among intermediaries from different countries. The change established that banks at the individual and consolidated levels are no longer required to apply a minimum ratio of 2.5% but instead shall use the following progression: 1.25% as from January 1, 2017 to December 31, 2017, 1.875% as from January 1, 2018 to December 31, 2018 and 2.5% as from January 1, 2019.

## C. QUANTITATIVE DISCLOSURES

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
<b>A. EXPOSURES</b>				
<b>A.1 Credit and counterparty risk</b>	<b>20,425,096</b>	<b>28,719,365</b>	<b>11,340,323</b>	<b>11,428,782</b>
1. Standardized approach	20,412,021	28,710,676	11,327,248	11,420,094
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	13,075	8,688	13,075	8,688
<b>B. CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			<b>907,226</b>	<b>914,303</b>
<b>B.2 Risk of adjustment of credit rating</b>			<b>7,479</b>	<b>8,665</b>
<b>B.3 Settlement risk</b>				
<b>B.4 Market risks</b>			<b>19,471</b>	<b>20,364</b>
1. Standardized approach			19,471	20,364
2. Internal models				
3. Concentration risk				
<b>B.5 Operational risk</b>			<b>92,577</b>	<b>90,524</b>
1. Basic indicator approach			92,577	90,524
2. Standardized approach				
3. Advanced measurement approach				
<b>B.6 Other components</b>				
<b>B.7 Total prudential requirements</b>			<b>1,026,753</b>	<b>1,033,856</b>
<b>C. EXPOSURES AND CAPITAL ADEQUACY RATIOS</b>				
<b>C.1 Risk-weighted assets</b>			<b>12,834,413</b>	<b>12,923,194</b>
<b>C.2 CET 1 capital ratio</b>			<b>12.12%</b>	<b>12.04%</b>
<b>C.3 Tier 1 capital ratio</b>			<b>12.15%</b>	<b>12.08%</b>
<b>C.4 Total capital ratio</b>			<b>13.23%</b>	<b>13.18%</b>

In the standardized approach, the unweighted amounts in the different categories of assets exposed to credit and counterparty risk (on-balance-sheet exposures, off-balance-sheet exposures, SFTs, LSTs, derivatives) correspond to the carrying amount net of prudential filters, the effects of risk mitigation techniques (full method for secured financial transactions) and credit conversion factors.<sup>5</sup>

<sup>5</sup> For off-balance-sheet transactions (guarantees granted and commitments), the credit conversion factor approximates the probability that a transaction will give rise to an on-balance-sheet credit exposure, for which the size of the exposure is estimated: the credit exposure equivalent is calculated by multiplying the nominal value of the commitment by the corresponding conversion factor (full, medium and low risk).



### **SECTION 3 – INSURANCE REGULATORY CAPITAL AND RATIOS**

The section has not been completed because there were no such positions as of the end of the reporting period.

### **SECTION 4 – CAPITAL ADEQUACY OF FINANCIAL CONGLOMERATE**

The section has not been completed because there were no such positions as of the end of the reporting period.



## **PART G**

### Business combinations



**SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE YEAR**

The Group did not carry out any business combinations during the year.

**SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD**

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

**SECTION 3 – RETROSPECTIVE ADJUSTMENTS**

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



## **PART H**

### Transactions with related parties





## 1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table reports information concerning the remuneration paid in 2017 to members of the Board of Directors, the Board of Auditors and key management personnel of the Parent Company who can be considered “related parties”.

	Short-term benefits	Post-employment benefits	Other long-term benefits	Loans and guarantees	Share-based payments	Total 2017
<b>Members of the Board of Directors and the Board of Auditors and key management personnel</b>	3,002	10	-	476	-	3,488

## 2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In December 2011, the Bank of Italy issued regulations governing on related party transactions contained in Circular no. 263/2006 with the aim of strengthening arrangements to ensure that close ties with the decision-makers of a bank cannot compromise the impartiality and objectivity of decisions relating to the granting of loans and other transactions involving them, with possible distortions in the resource allocation process, the exposure of the bank to risks that are not measured or monitored appropriately and the generation of losses for deposit holders and shareholders.

The individual companies of the Iccrea Banking Group, and therefore the Group as a whole, have adopted a document governing the principles and rules applicable to related party transactions in compliance with the supervisory regulations.

Transactions between the Iccrea Banking Group and corporate officers regard ordinary Group operations. They are undertaken in accordance with agreements applicable to all employees, where the necessary conditions are met. Transactions with corporate officers, their immediate family and entities controlled by them amounted to €0.4 million.

Transactions with subsidiaries not consolidated on a line-by-line basis and transactions with associated companies regarded ordinary operations within a multi-functional banking organization. These transactions amounted to €35 million and included guarantees issued in the amount of €7.9 million. At December 31, 2017, the Group companies had no exposures to the National Pension Fund for employees of the mutual banks.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.



## **PART I**

# Share-based payments



No information is reported in this section.



## **PART L**

### Operating segments





## A. PRIMARY REPORTING BASIS

For segment reporting, a summary income statement and key financial aggregates are prepared and presented. The companies within the Group mainly operate exclusively in individual operating segments, which, as noted in Section 5 of Part A.1 of these notes to the financial statements, are as follows:

- **Institutional:** business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for member banks;
- **Corporate:** business focused mainly on financing small and medium-sized companies that are customers of the mutual banks;
- **Retail:** mainly asset management activities on an individual and collective basis for retail customers;
- **Corporate Center:** internal Group activities of an administrative and support nature, as well as all intercompany eliminations.

For additional information regarding the criteria used to identify and measure the individual operating segments, please see Part A – Accounting policies.

## A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
<b>Net interest income</b>	<b>201,364</b>	<b>41,601</b>	<b>72,506</b>	<b>(1,010)</b>	<b>5,363</b>	<b>319,824</b>
<b>Net fee and commission income</b>	10,710	146,608	65,125	(2)	(4,706)	217,735
<b>Other financial expense and income</b>	13,146	129,556	6,777	-	(28,001)	121,478
<b>Gross income</b>	<b>225,220</b>	<b>317,765</b>	<b>144,408</b>	<b>(1,012)</b>	<b>(27,344)</b>	<b>659,037</b>
Net value adjustments	(121,065)	(30,892)	(25,703)	(1)	-	(177,661)
<b>Net gains (losses) on financial operations</b>	<b>104,155</b>	<b>286,873</b>	<b>118,705</b>	<b>(1,013)</b>	<b>(27,344)</b>	<b>481,376</b>
Operating expenses	(79,659)	(262,471)	(86,389)	3,903	3,699	(420,917)
Other costs and revenues	(2,317)	(20,010)	4,088	-	4,409	(13,830)
<b>Profit/(loss) from continuing operations before tax</b>	<b>22,179</b>	<b>4,392</b>	<b>36,404</b>	<b>2,890</b>	<b>(19,236)</b>	<b>46,629</b>
Income tax for the period on continuing operations	(4,310)	7,255	(12,681)	(1,065)	(324)	(11,125)
<b>Profit/(loss) for the period</b>	<b>17,869</b>	<b>11,647</b>	<b>23,723</b>	<b>1,825</b>	<b>(19,560)</b>	<b>35,504</b>
<b>Profit/(loss) for the period pertaining to non-controlling interests</b>	<b>(120)</b>	<b>(1,255)</b>	<b>(4,771)</b>	<b>-</b>	<b>(1)</b>	<b>(6,147)</b>
<b>Profit/(loss) for the period pertaining to shareholders of the Parent Company</b>	<b>17,749</b>	<b>10,392</b>	<b>18,952</b>	<b>1,825</b>	<b>(19,561)</b>	<b>29,357</b>

## A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	CORPORATE CENTER	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	31,817	3,443,859	10,430	2	(48,135)	3,437,973
Due from banks	96,394	24,512,797	62,221	2,388	(6,798,052)	17,875,748
Loans to customers	8,735,946	5,982,642	1,733,855	-	(1,595,564)	14,856,879
Funding from banks	3,542,351	19,145,762	786,539	39,780	(4,279,327)	19,235,105
Funding from customers	695,365	8,237,895	1,171,467	-	(35,868)	10,068,859
Securities and other financial liabilities	4,084,018	5,868,398	233,852	-	(4,084,042)	6,102,226

## **B. SECONDARY REPORTING BASIS**

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

# REPORT OF THE AUDIT FIRM





## Iccrea Banca S.p.A.

Consolidated financial statements as at December 31, 2017

Independent auditor's report pursuant to article 14 of  
Legislative Decree n. 39, dated January 27, 2010, and  
article 10 of EU Regulation n. 537/2014



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## Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

*(Translation from the original Italian text)*

To the Shareholders of  
Iccrea Banca S.p.A.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Iccrea Banca S.p.A. and its subsidiaries (the "Iccrea Banking Group" or the "Group"), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, the statement of comprehensive income, the statement of changes in consolidated shareholders' equity and the statement of cash flows for the year then ended and notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Iccrea Banking Group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n.136, dated August 18, 2015.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Iccrea Banca S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.  
Sede Legale: Via Po, 32 - 00198 Roma  
Capitale Sociale deliberato Euro 5.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.r.  
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iscritta all'Albo Speciale delle società di revisione  
Codice di progressivo n. 2 del bene n. 10931 del 18/7/1997  
A member firm of Ernst & Young Global Limited.





We identified the following key audit matter:

Key Audit Matter	Audit Response
<p>Classification and measurement of loans to customers</p> <p>Loans to customers recognized in the consolidated financial statements amounted to Euro 14,857 million at December 31, 2017.</p> <p>The process of classifying loans to customers in the various risk and measurement categories is relevant to the audit in view of the significance of the value of loans as a proportion of assets and in consideration of the fact that the recoverable value of loans is determined by management using estimates that are highly subjective, with particular reference to: i) the identification of evidence of impairment of a loan; ii) the realizable value of the collateral pledged as security; iii) the determination of the expected cash flows and the timing of those flows; iv) the definition of the uniform credit-risk categories of loans; and v) the determination of Probability of Default (PD) and the associated Loss Given Default (LGD) estimate on the basis of observed historical data for each risk class.</p> <p>The financial statement disclosures on the classification and measurement of loans to customers are provided by management in Part A and Part E of the notes to the financial statements.</p>	<p>In addressing these issues, our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>▪ gaining an understanding of Group policies, processes and controls for classifying and measuring loans to customers and performing testing procedures over controls considered key, including those associated with the information technology environment;</li> <li>▪ performing testing procedures to assess for a sample of positions the appropriate classification of loans and the measurement of credit positions measured individually, as well as the correct use of the collective measurement model for the performing portfolio;</li> <li>▪ performing comparative analysis procedures for the customer loan portfolio and the associated coverage levels for each risk category by comparison with previous years' data and an analysis of the most significant differences;</li> </ul> <p>Finally, we examined the adequacy of the disclosures provided in the notes to the financial statements.</p>

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



The Directors are responsible for assessing the Iccrea Banking Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the the Parent Company Iccrea Banca S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Iccrea Banking Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;



- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

#### Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of the Company, in the general meeting held on June 24, 2010, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

#### Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations and of the specific information included in the Report on Corporate Governance and Ownership Structure, as provided for by article 123-bis, paragraph 2, subparagraph b) of Legislative Decree n. 58, dated February 24, 1998, of the Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.



We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 2, subparagraph b), of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Iccrea Banking Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Iccrea Banking Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Rome, April 24, 2018

EY S.p.A.  
Signed by: Wassim Abou Said, Partner

*This report has been translated into the English language solely for the convenience of international readers.*

# **2017 CONSOLIDATED NON-FINANCIAL STATEMENT**

Prepared in accordance with Legislative Decree  
254/2016



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## 1. CHAIRMAN'S LETTER TO STAKEHOLDERS

The first edition of the Non-Financial Statement of the Iccrea Banking Group comes at a time of profound and radical transformation of the organizational and strategic structure of mutual banking.

The reform initiated with Law 49 of 2016 has led our system and the Group to radically rethink our business, with the aim of giving the mutual banks, their shareholders and customers more secure capitalization and a greater ability to respond to the need for security, innovation and development of the products and services offered.

The Iccrea Banking Group proposed the establishment of a Mutual Banking Group, drawing on the experience and structures created since 1963 in support of the mutual banks. The involvement of the banks and other entities of the mutual banking system in the definition of projects is in Iccrea's DNA. On February 5, 2017, a project implementation process was launched, having been prepared and shared with the European supervisory authorities back in March 2016. The effort has been undertaken by the Steering Committee, the 15 project areas giving substance to the 3 programs identified (Risk, Government, Market), and the Working Groups that have held 214 meetings over the 8 months of the project. This structure has involved 790 mutual bank professionals, who contributed to the drafting of the documentation relating to the application for establishment of the Mutual Banking Group to be presented to the supervisory authorities. These documents were presented to the Board of Directors of Iccrea Banca on December 21, 2017, which then discussed and supplemented them at the meeting of January 18, 2018.

The Non-Financial Statement has been interpreted not only as a regulatory obligation, but also as an opportunity to embody stakeholder engagement experiences and activities, to reflect and bring together the numerous initiatives and projects that we have activated, as typical tools of the cooperative and mutualistic identity of the system, in the careful and consistent development of business activities.

Values such as sustainability (economic, financial, territorial/local, social and environmental) are the foundation of the establishment of the Mutual Banking Group and are already a substantive part of the strategies and distinctiveness of the Iccrea Group.

We believe that Article 2 of the standard bylaws of the mutual banks is programmatic and binding for any structure involved in mutual banking, thus becoming an essential part of the Iccrea Banking Group's mission.

The Iccrea Banking Group has translated and identified the five values that constitute its foundation, which represent the expression of the programmatic structure of article 2 in daily operations:

- Cooperation;
- Openness;
- Excellence;
- Courage;
- Merit.

The drafting of the first NFS has further highlighted the fact that the Iccrea Banking Group has laid a solid foundation for making sustainability an even more distinctive and competitive factor for the future: the Mutual Banking Group must be able to identify and support new and more modern forms of cooperation and mutuality, adapted to respond to the needs of a society that has changed profoundly.

The 2017 document underscores the arrangements that have been taken to manage the main non-financial risks, including those considered fundamental by Decree 254/2016, taking account of the activities and initiatives implemented, the regulatory framework and the controls developed.

The Group's involvement of stakeholders is intended to give increasing support to the role and mission of the mutual banking system and translates into supporting the banks:

- as actors of local development;

- as key partners in supporting the real economy;
- in their commitment to the responsible pursuit of banking;
- as leading players in providing services, products, advice and support for the economic, social and civil development of local communities;
- in confirming them as standard bearers for the environment, both as regards the services on offer and for all that concerns the very way of “living” the environment. In this context, the Iccrea Banking Group has developed solutions for significant environmental enhancement and sustainability, including for its own offices.

The attention devoted to internal stakeholders has evolved in recent years through investments for the improvement and safety of workplaces, for the development of practices that are attentive to the needs of families and flexibility, to identify advanced forms of corporate welfare in addition to enhancing the neighborhoods in which it is present.

The passion and commitment shown by many in contributing to the production of this document further demonstrates the deep involvement and resources that the Iccrea Banking Group can bring to the table and develop. Our thanks go to everyone who personally and passionately embodies the values of mutual banking.

One of the claims that characterize the proposed Mutual Banking Group formulated by Iccrea Banca is “The first local bank in the country”. This claim sums up the main objectives and the attentiveness that distinguishes us. With this document, the Iccrea Banking Group highlights the long road we have travelled in promoting sustainability. With the launch of the Mutual Banking Group, this specificity will be even more closely integrated in strategy and guidelines, so that we can have an even greater positive impact on the territory, people, communities and the environment in which the shareholders and customers of the mutual banks live, operate and realize their identity and entrepreneurial skills.

The Non-Financial Statement, from this year and in the future, is an image of a way of being and interpreting one’s role in the market, a distinguishing element and integral factor of competitiveness, the drive for innovation and our Group’s commitment to efficiency.

The Chairman  
**Giulio Magagni**

## 2. IDENTITY OF THE ICCREA BANKING GROUP

### 2.1. Group structure

The Iccrea Banking Group is the second-level banking group of the mutual banking system, created in order to support the operations of the mutual banks (*banche di credito cooperativo* and *casse rurali*) and meet the needs of their business and individual customers with an integrated system of products and services.



The Iccrea Banking Group is organized around a Parent Company, Iccrea Banca SpA, and a number of specialized “product” companies controlled by the Parent Company that complete the product range for the benefit of the mutual banks. The capital of Iccrea Banca SpA is primarily held by the mutual banks themselves, which are simultaneously the shareholders and the main customers of the Iccrea Banking Group. Thanks to the services and products developed by the companies of the Group, the mutual banks are able to enhance their positioning on the local market, be efficient and competitive and maximize the added value of banks at the service of local economic development.

The products and services offered by the Group range from financial to investment products, including advisory services, extraordinary corporate finance, training for company strategies and the entire insurance sector (life and non-life) through equity stakes in companies who work for the mutual banking sector.

More specifically, the activities of the Iccrea Banking Group break down into three main business areas:

- **Institutional segment:** this groups the companies that offer products and services dedicated to mutual banks. The wide range of solutions available include securitizations, lending, payment systems, electronic money, securities administration, debt collection services, web services and call centers. The companies involved in this segment are Iccrea Banca (the Parent Company), BCC Sistemi Informatici, and BCC Gestione Crediti. BCC Solutions is also part of the institutional segment, although its products are addressed exclusively to the companies of the Iccrea Banking Group.

- **Corporate segment:** through Iccrea Bancalmpresa, this segments offers services and products for corporate clients of the mutual banks, including advisory services and financial services and solutions. The product range includes effective solutions and customized tailored to the needs of businesses, from traditional forms of bank services to the most advanced and innovative solutions. The portfolio of products ranges from ordinary finance to corporate finance, lending, services for international trade, finance and operational leases through the vendor channel and factoring, with support from the products offered by BCC Lease and BCC Factoring. The product range is completed by hedging derivatives, insurance services and subsidy programs.
- **Retail segment:** this comprises the companies that offer products and services for the household customers of the mutual banks. The product range includes asset management services, personal loans, mortgages and e-commerce services. The companies that operate in this area are BCC Risparmio & Previdenza, BCC Consumer Credit, BCC Retail, Banca Sviluppo and Ventis. Through minority interests in BCC Vita and BCC Assicurazioni, the Group also offers mutual bank customers insurance services in the life and non-life sectors.

<b>The Iccrea Banking Group in figures (December 31, 2017)</b>	
Mutual banks served	145 <sup>1</sup>
Corporate customers	354,869
Retail customers	2,718,686
Employees	2,356
Headquarters and local offices	13

### The local network

The Iccrea Banking Group is based in Rome and Milan. In Rome, Iccrea Banca, Iccrea Bancalmpresa, BCC Solutions, Banca Sviluppo, BCC Credito Consumo, BCC Sistemi Informatici, BCC Lease and BCC Factoring have offices in the via Lucrezia Romana complex. BCC Gestione Crediti has a separate office in Rome. BCC Risparmio & Previdenza, BCC Sistemi Informatici, BCC Credito Consumo, Ventis, BCC Lease, BCC Retail, Banca Sviluppo, BCC Factoring, Iccrea Banca and Iccrea Bancalmpresa are located in Milan.

Operations are conducted throughout the national territory, with a prevalence of business in the North, where the mutual banks have a larger number of branches. More specifically, the Iccrea Banking Group, through the network of mutual banks, is present in about 1,720 municipalities throughout Italy. The Group's geographical reach also includes 13 offices in a variety of Italian cities.

Through the direct presence of the branches of Banca Sviluppo, the Iccrea Banking Group guarantees access to financial services for 17 municipalities located in "less-favored areas", as defined by Regulation (EC) 1257/99, in Calabria, Campania, Basilicata, Veneto, Emilia Romagna and Sicily.

## 2.2. Group mission and values

The Iccrea Banking Group pursues a strategy aimed at promoting the stability and development of mutual banks while respecting their territorial, historical, cultural, social and economic identity.

<sup>1</sup> The number of mutual banks served by the Iccrea Banking Group at December 31, 2017 corresponds to the number of mutual banks that have joined the Iccrea Mutual Banking Group (see Chapter 3). On average, the number of mutual banks served was greater. The large number of mergers amount mutual banks in 2017 must also be taken into account.

Leveraging the professional experience gained alongside the mutual banks, the broad vision of their markets and understanding of the internal functional mechanisms of those banks, the Group seeks to support them in approaching the market, selecting products and services and accompanying them in the preparation of the necessary technical and organizational arrangements.

The Group's choices and actions are constantly guided by the ethical principles expressed in the **Charter of Mutual Banking Values**, which represents both a constitution for the mutual banking movement and guidelines for the action of the mutual banks.

The Iccrea Banking Group has drafted a "**Code of Ethics and Conduct**", which represents an essential element of the Compliance Model pursuant to and for the purposes of Legislative Decree 231/2001. The main purpose of the Code of Ethics is to define and proclaim the values of the Iccrea Banking Group and direct operations in respect for legality and compliance. The Code expresses the principles shared by all the Group companies and the ethical and behavioral commitments and responsibilities that the Group undertakes and implements in exercising its institutional activities.

### 2.3 The mutual banking system

The Iccrea Banking Group operates in the Italian financial sector, mainly carrying out traditional second-level banking activity, aimed at supporting the mutual banks in offering products and services to households and businesses, especially small and medium-sized enterprises.

More specifically, the Group operates within the national mutual banking system, which in 2017 comprised about 300 mutual banks, with more than 1,200,000 shareholders. In recent years, the number of mutual banks in Italy has decreased due to a process of concentration and consolidation. As of January 1, 2018, the total number of mutual banks present in Italy was 279, of which 145 are served by the companies of the Iccrea Banking Group. The banks of the system are characterized by their deep local roots, represented by a network of over 4,000 branches located in over 2,600 municipalities and 100 provinces.

From an organizational standpoint, the mutual banking system is a subsidiary and supportive system that distinguishes the associative system from the entrepreneurial system. In particular, the mutual banking system is structured into two winds: the associative, which includes the national federation (Federcasse) and the local federations, grouping together the numerous mutual banks; and the entrepreneurial, today made up of central second-level groups, including the Iccrea Banking Group, which supply their products and services to the mutual banks.

In operational terms, the mutual banking system is one of the main financial actors in supporting and developing the real economy of the territories in which it is present, thanks to the specific features of its banking products and services, which over the years has ensured that local communities have constant access to credit. Article 2 of the bylaws of the mutual banks states: "The purpose of the Bank ... is to favor shareholders and members of local communities in bank operations and services, pursuing the improvement of their moral, cultural and economic conditions and promoting ... social cohesion and responsible and sustainable growth of the territory in which it operates".

Within this system, the Iccrea Banking Group, in carrying out its mission to support the mutual banks, contributes to the creation of value in local communities, both by providing products and services in the various segments of its operations and by distributing financial resources to the mutual banks in the form of dividends and the pass-through of fees and commissions for Iccrea services and products used and distributed by the banks themselves.

### 3. THE TRANSFORMATION OF THE MUTUAL BANKING GROUP

With the approval of Law 49/2016 in April 2016, the process of reforming the Italian mutual banking system began, with the definition of a new organizational structure aimed at ensuring greater integration among all of the mutual banks operating in Italy. This integration will allow the mutual banks to respond effectively to new market environments and the regulatory developments associated with the entry into force of the Banking Union within the European Union.

This reform, therefore, represents a major change, one that will enable the Italian mutual banks to become part of a new and original organizational model, one that unites local culture and European scope. They will remain autonomous, mutual and local banks, but will be integrated within a more cohesive and efficient system. In fact, the reform does not deprive the banks of their identity but rather seeks to preserve the role of the mutual banks as local institutions with a predominantly mutualistic mission, and enable shareholders to participate in the social capital of the mutual banking system.

Under the new organizational model envisaged by the reform, each mutual bank will have to join a **Mutual Banking Group (MBG)** as the primary condition for the issue of a banking license. The process of joining the Group is regulated by a specific cohesion contract that will govern the operation of the Group itself. In particular, with the signing of the cohesion contract, the affiliated mutual banks accept the management, coordination and control activities of the Parent Company, without prejudice to the respect for the mutualistic purposes that characterize the mutual banking system. At the same time, the Parent Company will assume the duties and responsibilities in respect of the affiliated banks connected with its role as the entity in charge of the strategic and operational management of the Group and contacts with the supervisory authorities.

In this context, the Iccrea Banking Group has proposed itself as the Parent Company of the future Iccrea-branded Mutual Banking Group, promoting the start of activities for the formal establishment of the new banking entity.

The integration process for new Mutual Banking Group required the future Parent Company and the member institutions to launch joint working groups through which they will define shared policies and identify common management, administration, control and reporting tools.

Among these, also in the light of the reformed regulatory environment introduced with Legislative Decree 254/16, some of the projects involved in preparing the future Group are focused on the definition of common management and reporting tools among all the institutions involved, including for non-financial issues.

The participating banks are therefore engaged in a joint process of transposing the provisions of the decree, addressing the complexities generated by the need to combine different organizations with strong identities and diversified business activities.

#### The Iccrea Banking Group and associations

Within the mutual banking system and the Italian banking industry in general, the Iccrea Banking Group is an active participant in the management of and activities sponsored by agencies, institutions and industry associations, as reported in the following table:

## ASSOCIATIONS AND ORGANIZATIONS

TRADE ASSOCIATIONS		
Name of organization	Activity	Type of participation
<p><b>ABI</b> Iccrea Banking Group companies belonging to the organization: Iccrea Banca Iccrea Bancalmpresa BCC CreditoConsumo BancaSviluppo</p>	<p>ABI - Italian Banking Association - is a voluntary non-profit association that works to represent, protect and promote the common or specific interests of its members through the organization of studies and debates, the solicitation of regulatory innovation, national collective bargaining, information activities, training and dissemination, preparation of guidelines and codes of conduct, collaboration with national and supranational public institutions, and cooperation initiatives among the members.</p> <p>The ABI also represents the Italian credit and financial system in all international fora, including the European Banking Federation and the European Mortgage Federation.</p> <p>The ABI is not involved in the banking activity carried out by its members and does not possess databases with information on customer banking relationships.</p>	<p>Iccrea Banca participates as an ordinary member. The Chairman, Giulio Magagni, and the General Manager, Leonardo Rubattu, of Iccrea Banca are members of the Governing Council and the Executive Committee.</p>
<p><b>Federcasse</b> Iccrea Banking Group companies belonging to the organization: Iccrea Banca</p>	<p>Federcasse - National Federation of Mutual Banks - is the trade association of the mutual banks. It performs most of the activities that the ABI offers to the Italian banking system for the mutual banks - cooperative and mutual banks other than traditional banks. In particular, it manages the national collective bargaining, offers legal and tax advice and assistance services to the mutual banks, conducts studies and provides statistical services, promotes the image of the industry through national communication campaigns, and conducts training and information activities. In addition, it manages the external and institutional relations for the mutual banks at the national and international levels, represents the mutual banks, safeguarding their specific interests, with the main national (ABI and Confcooperative) and international industry associations (European Association of Cooperative Banks).</p>	<p>Iccrea Banca participates as ordinary member and designates two directors.</p>
<p><b>Assosim</b> Iccrea Banking Group companies belonging to the organization: Iccrea Banca</p>	<p>Assosim represents operators in the Italian securities market in relations with government institutions, other business associations, economic and social organizations and other associations, agencies and public and private entities.</p> <p>It carries out research, regulatory assistance and training services, with publications and the organization of conferences and workshops.</p> <p>The association has about 80 members among banks, securities investment firms and Italian branches of foreign intermediaries that are active on the primary and secondary markets and on derivatives markets, with a share of 82% of the entire volume traded on regulated markets in Italy. Since 2007, membership has expanded to include law firms, consultancies and IT solutions development companies, and to those who provide services to securities brokers.</p>	<p>Iccrea Banca participates as an ordinary member.</p>
<p><b>UNICO banking Group</b> Iccrea Banking Group companies belonging to the organization: Iccrea Banca (until June 2017, when the liquidation of the association was begun).</p>	<p>A European-level association based in Brussels for the exchange of experience, reciprocal training and strategic discussion on regulatory and market developments. The association was put into liquidation in 2017 and was officially liquidated in February 2018. The eight main European mutual banking groups were members: Rabobank, Crédit Agricole, DZ Bank, Raiffeisen Bank International, Raiffeisen Schweiz, OP Financial Group, Iccrea Banca and Banco Cooperativo Español.</p>	<p>Iccrea Banca participated as a member, the General Manager was a member of the Board and the Head of Institutional and International Relations was a member of the Executive Committee.</p>
<p><b>Assilea</b> Iccrea Banking Group companies belonging to the organization: Iccrea Bancalmpresa</p>	<p>Assilea is the Italian Leasing Association. It represents leasing companies with sector organizations operating in various institutional, national and international fora. At the national level, Assilea is an automatic member of the ABI and is a founding member of the O.I.C. (the Italian Accounting Board). It collaborates institutionally with Confindustria and with the main national associations of producers and distributors of goods and markets of interest to the industry.</p> <p>Internationally, Assilea participates in the bodies and activities of Leaseurope and maintains direct collaborative relations with the main</p>	<p>Enrico Duranti, General Manager of Iccrea Bancalmpresa, is President of Assilea</p>

international leasing institutions.

<p><b>IFLA</b> Iccrea Banking Group companies belonging to the organization: Iccrea Bancalmpresa</p>	<p>An association founded in 1965, today it is composed of leasing companies from all over the world, with a representative company for each nation. The member companies are generally affiliated with leading international banking groups. Its main objective is to offer members a forum for the exchange of ideas, experiences and information for the benefit of all participants.</p>	<p>Enrico Duranti, General Manager of Iccrea Bancalmpresa, is President of IFLA. Roberta Campanelli, Operations Manager of BCC Lease, is Secretary General of IFLA.</p>
<p><b>Leaseurope</b> Iccrea Banking Group companies belonging to the organization: Iccrea Bancalmpresa</p>	<p>Leaseurope, is the European Federation of Leasing Company Associations. Founded in 1972, Leaseurope boasts 45 members from 32 European and Mediterranean countries (Morocco, Tunisia, Turkey). Today it is a central body that involves both leasing and car rental companies. Its mission is mainly to represent, including through policy positions prepared by experts and technicians, the interests of its members in respect of European institutions, to promote an appropriate market environment for the sector, to inform its members about regulatory developments that impact the sector, to produce statistical data and to offer a platform for the exchange of experiences among members.</p>	<p>Enrico Duranti, General Manager of Iccrea Bancalmpresa, is a director of Leaseurope.</p>
<p><b>Assofin</b> Iccrea Banking Group companies belonging to the organization: BCC CreditoConsumo</p>	<p>Assofin is an association that brings together the main financial operators operating in the consumer credit sector. Its members are all captive arms of large companies, industrial or banking groups, both Italian and foreign. Through its delegates it represents its members on the Board of the ABI and is a member of Eurofinas, the European Federation of Finance House Associations. Its main aims are: the coordination of common initiatives, the exchange of experience on relevant common problems; the representation of its members in the relevant fora; maintaining an ongoing dialog with administrative and legislative bodies; the production of information of a statistical, legal, fiscal, administrative or advisory nature on matters of common interest; dissemination and communication to contribute to transparency and a better understanding of the consumer credit sector.</p>	<p>BCC CreditoConsumo is an ordinary member di Assofin.</p>
<p><b>Assogestioni</b> Iccrea Banking Group companies belonging to the organization: BCC Risparmio&amp;Previdenza</p>	<p>Assogestioni is the Italian association of asset managers and represents the majority of Italian and foreign asset management companies operating in Italy, as well as banks and insurance companies active in individual and collective asset management. The association offers its members advice and technical support on legal, fiscal and operational issues and promotes a constant dialogue with industry operators and institutions on the issues of investment, the protection of savings, corporate governance and regulatory and operational innovation in the industry. Internationally, Assogestioni is part of EFAMA (European Funds and Asset Management Association), with which it collaborates on the development of Community legislation and the effective self-regulation of the European asset management sector.</p>	<p>BCC Risparmio&amp;Previdenza is an ordinary member di Assogestioni</p>
<p><b>Assoprevidenza</b> Iccrea Banking Group companies belonging to the organization: BCC Risparmio&amp;Previdenza</p>	<p>Assoprevidenza, the Italian Association for Supplementary Pension Providers, is a non-profit organization operating as a national technical center for supplementary pension and welfare providers, bringing together second-pillar pension schemes of all types, funds and bodies providing welfare services as well as sector operators. After operating unofficially for more than five years, the Association was formally established in August 1991, at the initiative of a group of directors and managers of supplementary pension funds. The number of members has rising from the initial 20 to the more than 120 current members. Assoprevidenza is financed with the membership fees and the contributions from sector operators for study and research activities.</p>	<p>BCC Risparmio&amp;Previdenza is an ordinary member di Assoprevidenza.</p>



## 4. GOVERNANCE OF THE ICCREA BANKING GROUP

### 4.1. The governance model adopted by the Group

Iccrea Banca is a bank formed as a public limited company under Italian law (*società per azioni*) and, following its merger with Iccrea Holding, as from October 1, 2016 it assumed the role of Parent Company of the Iccrea Banking Group.

In September 2014, the European Central Bank, following the designation of the Iccrea Banking Group as a significant group pursuant to Article 6(4) of Council Regulation on the Single European Supervisory Mechanism - MVU (Regulation No. 1024/2013) has placed the Parent Company and the banks it controls under its direct supervision.

The Iccrea Group is formed by the Parent Company, Iccrea Banca, and by all subsidiaries subject to the management and coordination of the Parent Company, including those in which other entities, whether or not they belong to the mutual banking industry, have an interest.

The Parent Company and the banking, financial and instrumental companies controlled by it constitute the Iccrea Group entered in the Register of Banking Groups maintained by the Bank of Italy.

As at December 31, 2017, the shareholders of Iccrea Banca consisted of:

- a) 253 mutual banks;
- b) 2 central-level banks (Cassa Centrale Banca – Credito Cooperativo del Nord Est S.p.A. and Raiffeisen Landesbank Sudtirol S.p.A.);
- c) the National Federation and the 15 Regional Federations;
- d) 3 Banks other than mutual banks;
- e) 4 other entities.

Under the current bylaws, no shareholder may hold more than five percent of the company's share capital, except for Cassa Centrale Banca - Credito Cooperativo del Nord Est S.p.A., Raiffeisen Landesbank Sudtirol S.p.A. and the local Federations.

The complexity of the company and the Group, as well as the Parent Company's shareholder structure, has prompted the Group to adopt a traditional governance model, structured into separate bodies for management and control, characterized in particular by a body with strategic supervision and management functions, the **Board of Directors**, and one exercising control functions, the **Board of Auditors**. The statutory audit of the accounts is conducted by external audit firms.

Furthermore, in order to ensure efficient management based on the clear division of duties, the Parent Company's Board of Directors has delegated specific management functions to an Executive Committee.

The members of the Board of Directors and the Board of Auditors are appointed by the Shareholders' Meeting on the basis of the voting mechanism envisaged in the current bylaws. More specifically, the voting system for the appointment of directors provides for the use of competing slates of candidates, one of which is presented by the outgoing Board of Directors and the others are presented by shareholders representing at least 10% of the share capital, in order to foster the active participation of shareholders in the appointment of company officers.

In compliance with current regulations, the Board of Directors determines its optimal size and the qualifications of its members in relation to the need to effectively perform the functions of the administrative body and informs the shareholders of that guidance on the occasion of the election of the Board of Directors. .

The bylaws also provide for integrity, experience and independence requirements for the members of the Board of Directors and the Board of Auditors of Iccrea Banca.

Pursuant to the bylaws and in compliance with applicable supervisory regulations, the Parent Company, Iccrea Banca, has established internal Board committees (Appointments Committee, Remuneration Committee and Risk Committee) to support the Parent Company's Board of Directors, performing preliminary assessments, offering advice and making recommendations in their areas of responsibility.

Responsibility for economic, social and environmental issues within the Iccrea Banking Group has been assigned to the Board of Directors and no further attribution of responsibilities in these areas to other bodies is currently envisaged.

## 4.2. The material topics of the Iccrea Banking Group

In compliance with the requirements of Legislative Decree 254/2016 and in accordance with the reporting standards of the Global Reporting Initiative (GRI), the Iccrea Banking Group carried out an initial materiality analysis with the aim of identifying issues relevant to itself and stakeholders that significantly influence its ability to create value in the short, medium and long term.

In this context, “material” topics are those that reflect the significant economic, environmental and social impacts of the organization or that could substantially influence the assessments and decisions of stakeholders.

The first phase of the materiality analysis process involved carrying out a benchmarking activity in the financial sector and specific studies and guidelines in the area of sustainability, which led to the identification of approximately 70 material issues for the sector. Subsequently, these issues underwent assessment by the Group's management in order to define their relevance.

The result of this evaluation led to the identification of 15 material topics for the Group, which are shown below.

### MATERIAL TOPICS OF THE ICCREA BANKING GROUP

Material topics	Leg. Dec. 254 area of interest
Ethics and integrity in company conduct	Corruption and associated topics
Development of products and services for environmental and social purposes	Social
Development of future markets	
Protection of privacy and data protection	
Responsible lending	
Customer satisfaction and quality of service	
Responsible management of the supply chain	
Engagement and community development	
Transparency of information regarding products and services	
Training and professional development	Human resources
Welfare of employees and People Care	
Health and safety at work	
Management, attraction, development and retention of talents	
Management of the environmental impact of offices and branches	Environment
Systematic assessment of risks	Business model

In consideration of the geographical (mainly domestic), regulatory and business context in which it operates, the Group has not identified human rights topics as material. However, it believes that respect for these rights is an essential requirement in the performance of its activities, and for this reason it protects and promotes continuous compliance in this area, including through the application of the Code of Ethics and the Charter of Values. Therefore, with regard to the prerequisite offenses provided for by Legislative Decree 231/2001, the Bank has

identified and assessed the areas of crime that could generate a negative, direct or indirect, impact on respect for human rights. The Iccrea Banking Group did not identify any significant residual risks in these areas.

### 4.3. The internal risk control system

The Iccrea Banking Group conducts its activities based on the principles of prudence and containment of the exposure to risks, given the need for stability in the exercise of banking activities and the primary support and service function performed on behalf of to the mutual banks and their customers. In line with these principles, the Group pursues its development objectives in line with the needs of the mutual banking system, guaranteeing reliable and sustainable generation of value over time through balanced risk management.

In this context, the Group develops and implements its **Risk Management Process (RMP)** in compliance with the applicable regulatory framework, adapting it constantly to changes in the framework and changes in the market and the internal operational context .

The **Internal Control System (ICS)** operates on the RMP, which must, in general, ensure the completeness, adequacy, functionality (in terms of effectiveness and efficiency) and reliability of the RMP and its consistency with the RAF. The structure of the ICS was designed in line with the Group's organizational structure and takes account of the specific operations and associated risk profiles of each of the companies that comprise the Group.

Within the ICS, first-level controls are performed by all the operational and business units within company processes (for example, hierarchical, systematic and sample controls), or by units dedicated exclusively to control duties that report to the managers of the operational areas or are performed at the back-office level. For most company processes, first-level controls are incorporated into IT procedures.

The ICS also comprises the operation of the independent **Company Control Functions (CCF)**, dedicated to ensuring the correct and efficient functioning of the system itself. These include:

- the Compliance and Anti-Money Laundering function (CCO Area) – second-level controls;
- the Risk Control function (CRO area) – second-level controls;
- the Internal Audit function (Internal Audit) – third-level controls.

The RMP is divided into five phases that represent the general organizational declination of the Group's assumption and management risk framework:

The Risk Management Process is structured into five phases that represent the general organizational manifestation of the Group's risk assumption and management framework:

1. **Risk identification** (knowledge): this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).
2. **Assessment/measurement of the identified risks** (awareness): this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).

3. **Risk prevention and attenuation** (strategy): this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.
4. **Monitoring and reporting** (tracking and control): this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).
5. **Risk management and mitigation** (reaction and proactivity): this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

Alongside risks of an economic, financial and commercial nature typical of business activity, which are described in detail in section 8 “Main risks and uncertainties to which the Iccrea Banking Group is exposed” of the Report on Operations, the Group has also identified potential direct and indirect risk situations associated with non-financial issues.

These risks have been identified through a process of mapping the economic, social and environmental issues that could have a significant impact on Group activities, starting with an internal analysis of the institution and supplementing it with information drawn from a market benchmarking exercise and from publications of international institutions, such as the World Economic Forum.

The following are the results of the non-financial risk identification and assessment process, highlighting the correlation between the areas provided for in Legislative Decree 254/2016 and the main risks identified, and the Group's material topics. Risks attributable to material topics not included in the following table are explained and described in the subsequent chapters of the Statement.

## MAIN NON-FINANCIAL RISKS IDENTIFIED

Area of interest	Material topics	Main risks	Governance
Social – Customers and services	<ul style="list-style-type: none"> <li>- Protection of privacy and personal information</li> <li>- Development of future markets</li> </ul>	Privacy violation	<p>At present, each Group company addresses the issue individually in their capacity as a Data Processor. The Group recently delegated responsibility for these risks to the Compliance function, while the Incident Management rules, which will also include breaches of privacy, will be amended by May 25, 2018.</p> <p>In the ICT Security sector, in accordance with the "Group Information Security and Information Classification Policies" approved by the Parent Company's Board of Directors, the ICT Security function is responsible for the specialist operational activities relating to IT security and risk management, monitoring any threats. A project to strengthen the monitoring of IT risks, including cyber risk, was also completed, providing for the issue of dedicated insurance policies.</p>
	<ul style="list-style-type: none"> <li>- Protection of privacy and personal information</li> <li>- Development of future markets</li> </ul>	Loss of data and sensitive information	
Social – Supply chain	<ul style="list-style-type: none"> <li>- Responsible supply change management</li> </ul>	Lack of transparency in supplier selection processes	<p>The Group manages the procurement of goods and services on a centralized basis for the companies of the Iccrea Group under the responsibility of the Central Purchasing Unit of BCC Solutions.</p> <p>In addition, a specific mechanism has been set up that requires all suppliers to be registered in the Group Supplier Register, with provision for a formal selection process as per the Group Purchasing Regulations and the Cost Management – Supply Chain rules (again for instrumental goods and services).</p>
Social – Lending practices	<ul style="list-style-type: none"> <li>- Responsible lending</li> <li>- Development of products and services with environmental and social purposes</li> </ul>	Financing of activities in "controversial" sectors	To protect against potential impacts, the Group does not permit lending to certain sectors of activity deemed "controversial" as per the Code of Ethics and Anti-Money-Laundering Policy.
	<ul style="list-style-type: none"> <li>- Responsible lending</li> <li>- Development of products and services with environmental and social purposes</li> </ul>	Financing of activities affected by environmental and social issues	With regard to risks in the Corporate segment, the risk of financing activities with critical environmental and social factors is governed by the rules that regulate specific financing activities.
Environment	<ul style="list-style-type: none"> <li>- Managing environmental impact of offices and branches</li> </ul>	Inadequate waste management	The Code of Ethics addresses the environmental impact of the activities of the Group companies and condemns any form of damage, deterioration or violation of the provisions of the law concerning the environment, building, urban planning, pollution and illegal disposal of waste.
	<ul style="list-style-type: none"> <li>- Managing environmental impact of offices and branches</li> </ul>	Failure to comply with environmental protection regulations	In addition, specific rules of conduct regarding the environment are defined in the Compliance Model 231/01 of each company.
Human resource management	<ul style="list-style-type: none"> <li>- Professional training and development</li> </ul>	Missing or inadequate staff training	The "human resources" risk factor is included in the operational risk events defined by the Basel Committee and incorporated in the CRR. The monitoring of this risk was therefore integrated into the operational risks management framework adopted by the Group. Within the framework itself, risk events are monitored, both ex-ante

<p>- Management, attraction, development and retention of talent</p>	<p>Inadequate systems to guarantee equal opportunities in personnel recruitment and recruitment activities</p>	<p>(assessment of the operating context, risk assessment) and ex-post (loss data collection). On the basis of any findings that emerge, appropriate mitigation actions are proposed to the Human Resource Management department.</p>
<p>- Workplace health and safety</p>	<p>Accidents and situations of danger for workers</p>	<p>Health and safety risks (Legislative Decree 81/08) are managed on a uniform basis at the Group level, where a specific management system has been established. The regulatory system to govern this risks provides for:</p>
<p>- Workplace health and safety</p>	<p>Risks in occupational health and safety related to bank personnel and contractors</p>	<p>- specific arrangements within the Compliance Model 231/01 of each company regarding personnel management (selection, remuneration and incentive system) - specific policies for the selection and formalization of the onboarding of new personnel and intragroup changes.</p>

#### 4.4. Policies for managing ESG issues

The Iccrea Banking Group has established a codified and formalized internal regulatory system that helps to ensure the certainty and consistency of company organization and the appropriate management of the Group's activities in its various areas of operations, representing a benchmark for all corporate structures. In particular, the system consists of "primary rules", which regulate the corporate governance of the Group, the roles and responsibilities of the corporate bodies and units as well as the principles and general rules of conduct; and "secondary rules", which, in compliance with the roles and responsibilities defined in the primary rules, govern corporate conduct and the operating procedures of activities through the formalization of processes and the specification of operating rules and technical criteria for personnel to follow.

Drawing on the results of the materiality analysis illustrated in section 4.2, the Group has identified the policies currently implemented to manage the material topics that emerged from that study. In particular, in the course of its business activities, the Iccrea Banking Group has defined specific processes and operating practices that set out governance approaches and responsibilities for the issues considered relevant.

## 4.5. Commitments to stakeholders

In the performance of its activities, the Iccrea Banking Group establishes relationships and dialogue with a range of stakeholders, indicated below, which whom it has made general commitments defined in the bylaws, the Code of Ethics and the Charter of Values.

### ICCREA BANKING GROUP STAKEHOLDERS

Category	General commitments of the Group
Mutual banks	<ul style="list-style-type: none"> <li>Promote relationships based on the principles of collaboration, professionalism and transparency</li> <li>Support the stability and continuous development of the mutual banks</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Promote relationships based on the principles of collaboration, professionalism and transparency</li> <li>Ensure the transparency of banking transactions and financial culture through exhaustive advance information</li> <li>Adopt effective IT security practices</li> <li>Satisfy the financial needs of customers by constantly improving high quality services and products</li> </ul>
Iccrea Banking Group personnel	<ul style="list-style-type: none"> <li>Promote staff growth and development, in compliance with the principle of equal opportunity</li> <li>Recognize and enhance the skills of our employees</li> <li>Ensure the protection of the psychological and physical integrity of employees and respect for their moral personality</li> <li>Ensure the dignity of each person and prevent all forms of discrimination</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Favor local suppliers in order to foster development of the territories in which the Group operates</li> <li>Select suppliers based on the principle of impartiality, avoiding preferential or discriminatory treatment</li> </ul>
Territory and local communities	<ul style="list-style-type: none"> <li>Contribute to the enrichment of the economic, intellectual and social heritage of the territory and local communities</li> <li>Support and promote, through charitable contributions, sponsorships and donations, initiatives to support and develop the community</li> </ul>
Environment	<ul style="list-style-type: none"> <li>Reduce the environmental impact of our activities through the rational use of resources</li> <li>Promote environmentally responsible behavior by all internal personnel and external partners</li> <li>Purchase goods and services with a lower environmental impact</li> </ul>

While the Iccrea Banking Group has not structured a process for the involvement of stakeholders, we have established several channels of communication with them, ensuring constant and direct dialogue with the Italian mutual banks in order to understand their needs and identify potential critical issues. .

For the Group, the mutual banks are the main channel of contact with ordinary customers as well as with the territories and local communities in which they operate.

Of considerable importance today in communications with customers and society in general are the Group's social media channels. Using these instruments, certain Group companies are able to maintain contact, inform and communicate actively with customers and users of the web, encouraging participation and dialogue to ensure transparency and interaction.

Social media channels are also used to gather suggestions and questions on territorial initiatives, institutional initiatives and activities carried out and published.



## 5. PREVENTING AND COUNTERING CORRUPTION

Compliance with the law, as well as with the provisions of its bylaws, is a principle of fundamental importance for Iccrea. The Group undertakes to manage relations with all its stakeholders employing the utmost degree of honesty, transparency and compliance with internal rules and applicable legislation, preventing any conflict between corporate and personal interests.

In order to prevent possible wrongdoing or irresponsible behavior, in compliance with the legislative requirements of Legislative Decree 231/01, the Group companies have prepared a **Compliance Model**. More specifically, the model adopted by the Parent Company consists of the following elements:

- **Code of Ethics and Conduct:** this sets out the principles and ethical values underlying the corporate culture and management philosophy as well as the main rules of conduct to be observed in the performance of its functions and in its internal and external relationships;
- **Crime risk mapping matrix:** this is a summary document in which all sensitive activities are identified and reported with reference to the commission of the offenses defined in the 231/01 catalog;
- **Behavioral Protocols - General Part:** this is a document illustrating the contents of Legislative Decree 231/01, outlining the profile of the Supervisory Body and defining the methods for conducting training and information activities;
- **Behavioral Protocols - Special Part:** this is a document defining the special preventive arrangements and the rules of conduct governing those working in "sensitive" corporate areas, as managers of processes considered potentially exposed to the commission of the identified offenses that could be committed;
- **Internal Disciplinary System:** this is a document that defines the system of penalties that can be imposed on violators of the provisions of the Compliance Model, in accordance with principles and procedures that comply with the Workers' Statute and the applicable national collective bargaining agreement.

The Group has given responsibility for verifying compliance with the Compliance Model and the Code of Ethics to the Supervisory Body. The Supervisory Body is specifically appointed by the Board of Directors and meets the autonomy and independence requirements provided for in Legislative Decree 231/01. The Group has given the role and functions of the Supervisory Body to the Board of Auditors.

The Banking Group has also launched a long-term project to update and, where necessary, implement a Compliance Model within the Group companies that adopts a uniform methodological approach but is tailored to the specific businesses and the activities carried out by each company.

### Preventing corruption

With regard to corruption offenses within the Compliance Model, the Parent Company has performed an analysis of the main processes and activities exposed to the risk of corruption, both between individuals and in relations with government. Following this identification process, the Parent Company established a specific system of responsibilities and controls to govern processes whose activities are potentially exposed to the risk of corruption.

Failure to comply with the provisions of the Compliance Model, as well as the values and principles expressed internally in the Code of Ethics, by all the parties involved triggers the application of specific disciplinary sanctions.

Reports of violations or irregularities in the conduct of the parties operating in/for the companies and the Group should be sent in writing via e-mail to the appropriate e-mail address established by the Supervisory Body of each company.

During the year, the Parent Company, together with updating the Compliance Model, also conducted an analysis of the Group's processes and companies related to potential corruption offenses. In particular, 25 processes (about 20% of the total) were analyzed for the Parent Company.

Staff training is fundamental to preventing corruption. In this regard, last year the Group provided 7,904 hours of training on anti-corruption issues to 1,976 employees, using e-learning systems.

### HOURS OF ANTI-CORRUPTION TRAINING BY GENDER AND LEVEL

	Men	Women	Total
Executives	88	4	92
Managers	2,232	848	3,080
Office staff	2,408	2,324	4,732
<b>Total</b>	<b>4,728</b>	<b>3,176</b>	<b>7,904</b>

### NUMBER OF EMPLOYEES INVOLVED IN ANTI-CORRUPTION TRAINING BY GENDER AND LEVEL

	Men	Women	Total
Executives	22	1	23
Managers	558	212	770
Office staff	602	581	1,183
<b>Total</b>	<b>1,182</b>	<b>794</b>	<b>1,976</b>

### Preventing money laundering

With regard to anti-money-laundering activities, the Iccrea Group has identified an exposure to the risks of money laundering and terrorist financing associated with activities aimed at non-financial parties, such as corporate and retail customers. In this regard, the e-money distribution activities and related payment system services performed by Iccrea Banca, as well as the financing activities performed for corporate customers by Iccrea Bancalmpresa, are an example. At the same time, operations with banking, financial and institutional counterparties, although presenting a lower level of risk, are screened for potential money laundering activity using mechanisms established in Group regulations that include due diligence measures and sample monitoring of transactions.

In order to monitor and appropriately manage the risks of money laundering and terrorist financing, the Iccrea Banking Group has issued a "Policy for the governance and management of the risk of money laundering and terrorist financing", which incorporates the guidelines on which the different management models applied within the individual Group companies are based, in compliance with the applicable legislation.

On the basis of the policy, each Group company has developed a specific body of internal rules that set out the control activities conducted on the basis of the individual obligations envisaged in Legislative Decree 90/2017, in relation to the operating and distribution model adopted by that company. More specifically, the overall body of rules is made up of a general process standard and secondary rules governing customer due diligence, the conservation and registration of information relevant for anti-money-laundering activities and the reporting of suspicious transactions.

Reports concerning money laundering and terrorist financing offenses are also made in accordance with the procedures set out in the Group policy on internal reporting systems.

The monitoring activities carried out during the year by the Group companies subject to the obligations in this area provided for the analysis of the processes connected with potential money laundering and terrorist financing offenses. In this context, the Group analyzed 21 processes (approximately 20% of the total) for a total of 7 companies, as reported by them to the Parent Company's Anti-Money-Laundering unit.

In parallel with the e-learning training in the anti-corruption filed, the Iccrea Banking Group conducted defined a specific training course on anti-money-laundering issues, for which the Group provided 6,644 hours of training to 1,317 employees.

### HOURS OF ANTI-MONEY-LAUNDERING TRAINING BY GENDER AND LEVEL

	Men	Women	Total
Executives	140	8	<b>148</b>
Managers	1,699	677	<b>2,376</b>
Office staff	1,854	2,266	<b>4,120</b>
<b>Total</b>	<b>3,693</b>	<b>2,951</b>	<b>6,644</b>

### NUMBER OF EMPLOYEES INVOLVED IN ANTI-MONEY-LAUNDERING TRAINING BY GENDER AND LEVEL

	Men	Women	Total
Executives	21	2	<b>23</b>
Managers	310	124	<b>434</b>
Office staff	411	449	<b>860</b>
<b>Total</b>	<b>742</b>	<b>575</b>	<b>1,317</b>

## 6. CUSTOMERS

In carrying out their activities in the three business areas (institutional, corporate and retail), the companies of the Iccrea Banking Group offer financial products and services to the network of mutual banks, to small and medium-sized enterprises and to individuals and families who are customers of the mutual banks.

### The mutual banks

The institutional segment includes all the companies of the Iccrea Banking Group, which offer products and services to support the operations of the Italian mutual banks.

In this area, the Iccrea Banking Group offers the mutual banks a wide variety of solutions that include financial services, payment systems, securities settlement and administration, debt recovery, facility management, property management, asset management and IT infrastructure management services.

Thanks to this broad range of services, during the year the Group assisted most of the mutual banks that make up the current mutual banking system, operating throughout Italy. At the end of 2017 there were 145 mutual banks served by the Iccrea Banking Group, corresponding to the local banks that chose Iccrea as the Parent Company of the nascent Mutual Banking Group (Law 49/2016).

### Small and medium-sized enterprises

The corporate segment represents the Group's offer for companies, mainly small and medium-sized enterprises, who are the main corporate clients of the mutual banks.

In this segment, working through Iccrea Bancalmpresa and its subsidiaries BCC Factoring and BCC Lease, the Iccrea Banking Group offers Italian SMEs services tailored to the needs of different business sectors, with products ranging from traditional forms of lending to more evolved and innovative financing options. The Group has therefore developed a broad selection of products going from ordinary lending to extraordinary corporate finance, project finance, services for international trade, subsidized financing, mini-bonds, finance and operational leasing and factoring. In addition to financial products and lending, Iccrea Banca, with the help of mutual banks as placement agents, offers its corporate customers specific e-money products (e.g. corporate credit cards, payment acceptance services) and the possibility of selling their goods through the new online platform offered by Ventis.

During the year the Banking Group supported 354,869 SMEs with its products and services.

### Individuals and families

The retail segment includes the Group's product range for individuals and families who are customers of the mutual banks. The offer includes asset management services, pension and insurance products, personal loans, mortgages and card-based payment systems. BCC Risparmio & Previdenza, BCC Credito al Consumo, BCC Retail, Banca Sviluppo and Iccrea Banca operate in this segment with the help of the mutual banks as placement agents.

During the year the Group sold products and services to 2,718,686 retail customers.

## GEOGRAPHICAL BREAKDOWN OF CUSTOMERS BY BUSINESS LINE

	Northern Italy	Central Italy	Southern Italy	International
Corporate	51.4%	26.8%	21.5%	0.3%
Retail	57.4%	24.1%	18.4%	0.2%
Institutional	33.0%	27.0%	40.0%	

## VALUE OF BUSINESS LINES AS A PROPORTION OF THE GROUP'S CONSOLIDATED ASSETS

	Institutional	Corporate	Retail
Value of business lines as a percentage of 2017 consolidated assets <sup>1</sup>	78%	20%	2%

<sup>1</sup> The 2017 consolidated assets used as the denominator for the calculation of percentages is equivalent to the sum of the following balance sheet items: Due from banks, Loans to customers and Financial assets. The figure does not include inter-company transactions and the corporate center.

### 6.1. Transparency, fairness and quality of service

The Iccrea Banking Group seeks to ensure the satisfaction and appreciation of its customers, responding to their financial needs through the continuous development of quality innovative services and products. The Group also seeks to establish a relationship of mutual trust with the customers of the mutual banks, based on the principles of collaboration, availability, professionalism and transparency, ensuring full compliance with current regulations.

#### The quality and appropriateness of products and services

The Iccrea Banking Group pays particular attention to the development of financial products and services in order to mitigate the potential regulatory and reputational risks that could be generated by a failure to comply with the applicable regulations on transparency and consumer protection and any divergence of those products and services from the values expressed by the Group.

In this context, the Group companies have their own internal regulations that define the rules for the development of new products and services as well as entry into new markets.

BCC Risparmio & Previdenza S.G.R, a Group asset management company, has set up an internal **Product Development Committee**. This Committee has the task of evaluating - on the basis of market analysis, regulatory developments and the policies and strategic guidelines set by the Parent Company - the advisability of introducing new products, services and lines of business or modifying existing ones. In particular, the Product Development Committee provides the board of directors of the company, which is responsible for the final decision, with all the information and analyses necessary to take informed strategic decisions.

#### Quality in customer relations

The relationship with institutional, corporate and retail customers is managed by the Iccrea Group through various traditional or digital channels.

For the institutional sector, the Group involves mutual bank customers in a customer satisfaction exercise each year. This activity is managed through a **Brand Audit** aimed at understanding the quality of the relationship between the various mutual banks and the Iccrea Banking Group. The current customer satisfaction approach includes seven surveys, composed of fifty questions each, aimed at recording the degree of customer satisfaction with the products and services offered by the individual Group companies.

In 2017, the Group published the results of the survey carried out at the end of 2016, which resulted in a mutual bank satisfaction level of 7.2 on a scale of 1 to 10. In short, the perception of the Iccrea Banking Group as a solid and reliable institution is strong among the mutual banks. In addition, the survey found a need for the mutual

banks to engage more closely in joint planning with the Group for commercial activities, such as communication and marketing, the design of innovative products and accelerating time to market. .

With regard to relationship with corporate and retail customers, the Iccrea Banking Group conducts direct engagement activities only in certain cases and relies mainly on the mutual banks in the local community. Businesses, individuals and households, however, can contact all the Group companies through their websites and the main social networks. For some brands such as CartaBCC and CrediPer, the Group is also present on Facebook.

Within the customer relationship, the transparency of the information on products and services is of particular importance, bearing in mind the need to protect the less informed customers who find it more difficult to manage relationships with banks.

In this area, the transparency of products and services is guaranteed by the companies of the Group through the preparation of detailed fact sheets for products and services and the info sheets on the average global effective rates that the mutual banks offer their customers. This applies to all products and services that require it.

Furthermore, for regulatory compliance in the area of investor protection and market structure, the Group companies involved have undertaken a process to ensure compliance with the requirements set out in the new MiFID II and PSD2 regulations. Both of these are in force since January 2018. MiFID II revises and expands the previous regulation (MiFID) on the provision of investment services, introducing greater safeguards to protect investors, with particular attention to disclosure obligations in the placement of financial products. The PSD2 directive on payment services extends the previous framework (PSD) and aims to promote the development of an efficient, secure and competitive payment market by strengthening the protection of users of payment services, supporting innovation and increasing the security of electronic payment services.

## 6.2. Digitization and multichannel systems

Technological and digital development has produced significant changes in the financial sector. The Iccrea Banking Group is committed to seizing the opportunities offered by technological innovation and emerging methods for the distribution of financial services and customer contact services offered by the digital world, adapting itself to the main national and, above all, Community legislation (e.g. PSD2) in the areas of instant payments, security measures (strong customer authentication) and new operators (so-called “third parties”).

With an official document approved by the Board of Directors of the Parent Company, the Iccrea Banking Group has prepared an innovation development program for 2018-2020, envisages achieving major results as early as 2018. In this delicate phase of the evolution from a second-level banking group to a Mutual Banking Group starting next year, the innovation development program seeks to combine short-term results with long-term structural changes in three macro-dimensions:

1. Strengthening and enhancing the concept of proximity by making the digital an additional means of strengthening the relationship with customers through all channels;
2. Adopting operational approaches and building more efficient and flexible infrastructures through the introduction of new technologies and an architecture open to integration in an open banking context;
3. Supporting the continuous development of innovation with the introduction of new business models that facilitate the support of local communities and their examples of excellence. In this field, the Group has embarked on a specific process of digitizing its structures in order to exploit the online environment as a communication channel and offer services in synergy with the traditional physical network.

At the same time, the Group has set up a specific service design unit to design an improved digital customer experience, simplifying customer interaction and the ease of navigation on different internet channels. Particular attention was paid during the year to online accessibility for disadvantaged groups, through participation in national and European working groups in which the issues of financial inclusion and digitization are addressed.

On the digital front, the Iccrea Banking Group, through BCC Sistemi Informatici, offers the mutual banks numerous products for the digitization of banking services, in particular:

- **Relax Banking**, an Internet banking tool on a multi-channel platform that allows customers of the BCC to connect and access updated information on their accounts and cards and carry out the main banking transactions directly online. Relax Banking is accessible through the website [www.relaxbanking.it](http://www.relaxbanking.it), the RelaxBanking Mobile app, available on GooglePlay and AppStore and the m-site accessible for the visually impaired.
- **Electronic signature**, through which, with the acquisition of the biometric data of the signature, it is possible to manage contractual and accounting documents directly online. This tool allows the mutual banks to obtain advantages in terms of efficiency and environmental impact, thanks to the possibility of eliminating the paper version of documents.
- **Digital payment services**, which include both traditional payment instruments, such as wire transfers and cards, revised and adapted to the needs of speed and simplicity of the "new generation" (e.g. Instant Payment, CartaBCC multifunction app, etc.) and more innovative services. With this in mind, Iccrea considered it appropriate to supplement the product range:
  - investing in the "Satsipay" smart payment start-up, which enables smartphones and tablets to be used for C2B payments and C2C transfers;
  - launching profitable business partnerships with giants Apple and Samsung to integrate CarteBCC with the Apple Pay and Samsung Pay payment services.

In addition, the Parent Company decided to invest in the Ventis digital start-up operating in the online sale of goods and services and now become a key asset in the Iccrea Banking Group's "Open Banking" strategies.

Finally, the Iccrea Banking Group is also participating in Italian and European working groups to monitor and steer legislation in the areas of digital innovation, fintech, privacy and innovative payments in order to prevent the emergence of critical problems and risks for the public and customers and to foster the development of innovative products and services that increase consumer confidence, ease of use, boost competition and, as a result, reduce costs.

### 6.3. Privacy and data protection

In compliance with national regulations on privacy and personal data protection, the Group companies have their own internal rules for the management of privacy and data that specify roles and responsibilities in the management of personal data processing activities.

The security measures adopted by the Group, including "minimum" measures, are diversified according to whether the data processing is being performed with or without the aid of electronic tools or concerns the sensitive or legal information of the interested parties.

The Iccrea Banking Group also periodically updates the privacy documentation and disclosures on the company intranet, on the website and that provided to customers in order to comply with the evolving regulatory framework. In anticipation of the entry into force in May 2018 of the new European privacy regulation, the Iccrea Banking Group undertook a process of adaptation to the new regulatory requirements to ensure that the companies of the Banking Group and the mutual banks were compliant.

Consistent with the digital evolution of the banking world and the emergence of new threats to privacy and customer data, the organizational units that are responsible for operational information security activities monitor the related threats in order to ensure the protection of IT resources and the information handled, implementing and verifying IT security processes, safeguards and measures, in line with the Group Policy in this area.

Furthermore, given that global economic, demographic and geopolitical trends, combined with rapid technological progress, are transforming the traditional risks with which international companies used to deal with in the past, in 2017 the Iccrea Banking Group began a project to redesign the "insurance map" aimed at ensuring a consistent, uniform and integrated level of satisfaction and coverage. The project showed the need to implement even more coverage and mitigation measures for cyber risk, an increasingly major threat in terms of impact on

corporate reputation. Accordingly, in 2017 the Iccrea Banking Group launched a process to strengthen the tools available to monitor this risk. In particular, this process - based on the results of an in-depth analysis of the business of the various Group companies, the market and the entire technological infrastructure – is intended to implement an insurance coverage system to reduce the Group's exposure to losses deriving from events such as, for example, the theft of sensitive data or the interruption of business as a result of the blocking of IT systems.

During 2017 the Iccrea Banking Group did not register any violations of privacy rules. During the course of the year BCC Sistemi Informativi found an operational error that generated only one complaint from a customer of a mutual bank.

During the year there were no cases of loss or theft of sensitive data from the Bank's information systems.

## 6.4. Complaint management

The Iccrea Banking Group has adopted specific rules for the management of customer complaints and has entrusted the management of such complaints to a specific **Complaints Office**, within the Compliance unit, at each company of the Group.

With regard to complaints from institutional customers, the Group has set up a direct contact channel with the mutual banks.

For corporate and retail customers, the Italian mutual bank network represents the direct contact channel for the Group and is the initial point of reception for complaints. In the e-money field in particular, the management of complaints from cardholders is governed at the Community level by Directive 64/2007 (PSD1) as amended by Directive 2366/2015 (PSD2) as well as, of course, by the detailed provisions of national legislation and the competent authorities in this area (e.g. the Bank of Italy).

In addition to the physical channel, Iccrea Banca and Iccrea Bancalmpresa have created other channels for customers to file a complaint by ordinary mail, e-mail to a specific e-mail address and certified e-mail (PEC).

Please note that all complaints made by customers, whether in written or oral form, are brought to the attention of the Complaints Office, which is required to receive them, register them, assess them and settle them within the time limit established in current legislation.

If the internal channels established by the Bank are not sufficient to resolve disputes, customers can contact the Banking and Financial Ombudsman (ABF), a resolution system for disputes between customers and banks and other intermediaries concerning banking and financial transactions and services.

## 6.5. Responsible and sustainable products

In pursuing its mission to promote the stability and development of the mutual banks, the Group is committed to enriching its product line with financial products linked to eco-sustainable initiatives, territorial development and social inclusion.

### Support for young people and families

With regard to products designed to meet particular needs of social relevance for families and young people, Iccrea Bancalmpresa has created the **housing lease**, a specific type of financing intended to support young people and young couples in the purchase of their primary residence. This product offers greater tax benefits and easier access to credit compared with ordinary first-home mortgages.

In support of the youngest customers, the Group has developed numerous payment and payment solutions:

- **Carta Tasca for minors:** a special rechargeable prepaid card designed for teen budgeting, which does not require an associated current account and can be reloaded at any time with the cash immediately



available. As well as ensuring young people have access to financial services, this solution is also part of a broader policy of reducing cash in circulation.

- **CUS Card:** a prepaid card associated with an IBAN that can be used by students as an electronic money instrument and university badge. Over the course of the year over 1,570 students, enrolled at participating universities, signed up for a CUS Card.
- **Prepaid Ateneum Card:** a prepaid card created through an agreement with major Italian universities, aimed at offering payment services that meet the needs of university students.
- **Black Ventis card:** a credit card created by a commercial partnership with Ventis, aimed at offering millennials access to the online market. The product is structured to encourage purchases on the Ventis.it portal (with a discount coupon for each new card, cash back for purchases on the Portal, etc.).

Banca Sviluppo has also created **Conto Domani**, a current account targeted at under-18s that can meet their present and future needs, with facilitated conditions and the ability to access all services via web or a simple app.

### Support for small and medium-sized enterprises

In order to promote territorial development and support the growth of small and medium-sized enterprises, as actors and drivers of the development of local communities and economies, the Iccrea Banking Group has established relationships and partnerships with different National Promotional Banks, such as Cassa Depositi e Prestiti (CDP), as well as with European financial institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF).

These agreements guarantee access to financial instruments to facilitate the financing of local businesses in the field of subsidized finance. In 2017, numerous initiatives were carried out in this area, including:

- **Agreement with the EIF for access to the InnovFin guarantee product**, which allows the financial intermediary to receive a 50% guarantee on a portfolio of new financing transactions with SMEs and small midcaps (companies with up to 499 group-wide employees) oriented towards innovation. This instrument is part of the European Horizon 2020 program for research and innovation. Through Iccrea Bancalmpresa, in 2016-2017 the Iccrea Banking Group disbursed about €85 million in 104 transactions with innovative companies.
- **BCC Lease agreement with the EIF on the COSME guarantee facility**, which gives financial intermediaries a guarantee on a portfolio of new small-sized transactions with SMEs, which are often considered risky. Between the end of 2016 and all of 2017, the Iccrea Banking Group used this instrument to disburse some €48 million for 2,854 contracts.
- **Iccrea Bancalmpresa agreement with SACE on the 2i Guarantee product for enterprises**, which gives financial intermediaries access to a guarantee covering up to 80% of the loan granted to an SME for an internationalization or innovation project. Through this instrument, the Iccrea Banking Group disbursed about €6 million in 2017.

In the subsidized lending area, an important role is played by the Subsidy Program Office of Iccrea Bancalmpresa. This unit manages the subsidized finance activities carried out directly by Iccrea Bancalmpresa and indirect financing activities through a service offered to the mutual banks to carry out lending activities. In 2017, about 5,250 Italian companies gained access to credit thanks to the subsidized finance services offered by Iccrea Bancalmpresa:

- **A service for the SME customers of the mutual banks** giving them access to interest rate subsidies under the Sabatini Act. Thanks to this service, in 2017, Iccrea Bancalmpresa received 3,100 applications for credit from the customer companies of the mutual banks. Of these, the Iccrea Bancalmpresa process and the Ministry of Economic Development approved 1,965 applications, with the disbursement of total credit of €470 million to SMEs, of which approximately €40.4 million were represented by interest rate subsidies directly benefitting the borrowers.
- **A service for mutual banks** to gain access to the guarantee instruments provided by the Central Guarantee Fund for bank loans to SMEs. In 2017, Iccrea Bancalmpresa presented about 3,030 applications

to the Central Guarantee Fund on behalf of the mutual banks participating in the public guarantee mechanism. This activity translated into total financing of about €468 million.

- **Direct participation of Iccrea Bancalmpresa** in the Central Guarantee Fund for the financing of small and medium-sized enterprises. During 2017, IBI presented 250 financing transactions directly to the Central Guarantee Fund, for total disbursements of about €118 million.

### Support for government

In the area of providing support for government entities, Iccrea Bancalmpresa has for some years been developing the “**public leasing**” financial product to support local government entities (regions, local health authorities and, above all, municipalities) in the form of public-private partnerships to carry out building projects, especially in the health, education, sports and multi-purpose building sectors.

### Investment products

Within the range of investment products, the Group is engaged in the development and placement of ethical solutions with environmental protection objectives.

During the year the Group handled the placement of the following bonds:

- **World Bank bonds for sustainable development**, aimed at promoting projects to reduce poverty and inequality. These initiatives are conducted in compliance with the principles of environmental, social and fiscal sustainability in order to improve the quality of life, protect the environmental heritage and support the development of the education, health and infrastructure sectors.
- **World Bank "green growth" bonds**, issued as part of the “Green Bond” program aimed at promoting projects to protect the environment and combat the effects of climate change.

With regard to the bonds issued by the Group, during the year we renewed the associated issuance program, under which the **Savings Bonds for the Southern Economy (TREM Bond)** may also be issued. The funds raised with the latter must be used for medium-long term investments in SMEs with registered offices in the regions of Southern Italy or to finance of ethical projects in order to reduce the imbalance between the Southern regions and the rest of the country. In light of this constraint on the allocation of the funds raised, these securities benefit from a flat 5% withholding tax on the interest accrued by the subscribers and therefore represent an opportunity for the holders of the securities to earn a better return. For TREM issues carried out in previous years and still in outstanding, the MEF was sent the notifications of the constraint on the use of the funds necessary to self-certify the incremental flow of medium/long-term lending to SMEs registered in in the previous calendar year to the MEF, which must be at least equal to the funding raised through the issue of the bonds.

The Iccrea Banking Group also places ethical investment products through the asset management company BCC Risparmio & Previdenza. The products are issued by a third-party company that only promotes and manages socially responsible investment funds.

### Supporting the third sector

The Iccrea Banking Group has developed specific products for non-profit associations operating in the country in collaboration with the mutual bank network in Italy. In particular:

- **iDEE website**: the Iccrea Banking Group developed and maintains the website for iDEE, the association of women working in the mutual banking industry engaged in enhancing the role of women within the mutual banking movement and developing welfare and life balance initiatives.
- **ARPJ website**: the Iccrea Banking Group developed and maintains the website for ARPJ, a volunteer organization in Rome which seeks to give women, minors and young people in need the opportunity to become protagonists responsible for their future within their own community.

## Products with environmental relevance

With regard to the range of banking and credit products linked to eco-sustainable initiatives, Iccrea BancaImpresa has long contributed to the development of power generation from **renewable sources** through project finance and project leasing products aimed at financing projects for the installation of photovoltaic systems, wind farms, biomass or biogas generation plans and small hydroelectric plants (so-called mini hydro). In 2017, some €34 million were disbursed by Iccrea BancaImpresa for the renewables sector.

## 6.6. Responsibility in lending

The Parent Company has established a lending policy that identifies sectors that, while involving legal activities, cannot be financed for ethical reasons. More specifically, these include:

- the manufacture, distribution and marketing of weapons (with the exclusion of weapons for sporting or recreational activities), equipment and systems that can be used for military purposes;
- the manufacture, distribution and marketing of equipment for betting, video-poker, slot machines and gambling in general;
- the manufacture and distribution of material related to pornography (sex shops, pornographic publications, etc.).

Loan applications received from parties operating in these sectors, regardless of the size of the loan requested, the same are brought to the attention of the Credit Committee, which acts as an advisory body in the assessment of transaction eligibility, in order to verify that it does not violate the Bank's ethical policies. The request for an opinion submitted to the Credit Committee must be accompanied by a detailed report by the application manager containing the reasons that prompted the decision to consider the operation eligible. In these cases, the Credit Committee may also act as the body responsible for final approval of the transaction. In 2017, no operations involving the excluded sectors were brought to the attention of the Credit Committee.

Iccrea BancaImpresa promotes the responsible management of uncompleted or unsold residential real estate investments in its own portfolio and those of the mutual banks. Under this policy, Iccrea BancaImpresa is involved in completing the construction of dwellings for subsequent placement on the market at controlled rents or lowered sales prices for the benefit of disadvantaged groups identified by the municipalities involved, with the support of specialized companies. This activity provides for the involvement of the **Iccrea BancaImpresa Social Housing Fund**, established for this purpose and launched with Cassa Depositi e Prestiti as majority shareholder and Investire SGR as the management company. To date, the first €25 million have been subscribed in the Fund, of which €10 million (40%) by Iccrea BancaImpresa. Over the next few years, €100 million will be subscribed, with Iccrea BancaImpresa taking a 20% stake.

## 7. SUPPORTING LOCAL COMMUNITIES

The Iccrea Banking Group uses donations and sponsorships to support activities and initiatives to safeguard and enhance the historical, cultural and natural heritage, the education and training of young people, scientific and university research, humanitarian projects and social and health assistance, and artistic, sporting and recreational initiatives.

During the year, the Board of Directors of Iccrea Banca resolved to a variety of charitable initiatives, which were selected on the basis of:

- **sector**, supporting organizations engaged in humanitarian, healthcare, social assistance and environmental conservation efforts and the protection of cultural heritage;
- **geographical distribution**, supporting organizations that operate both nationally and internationally;
- **long-term collaborative relationships** between the associations supported and the Bank.

During 2016-2017, Iccrea Banca made approximately €480,000 in charitable donations. More specifically, the Bank supported:

- **Religious and lay associations** operating in the city and province of Rome, or in the Lazio region, including Associazione ABC, Caritas, Comunità di Sant'Egidio, Comunità di Capodarco, Assohandicap, Peter Pan Onlus, Sport Senza Frontiere, CRI-Gruppo Donatori Sangue, AISM, Ente Nazionale Sordi, Associazione Kiasso e Associazione Sordomuti XIII Municipio. The Bank donated around €318,000 to these institutions. The figure also includes a contribution of €150,000 to the Blood Donor Area of the Metropolitan Area Committee of Rome of the Italian Red Cross to purchase a three-station bloodmobile to operate at the regional level.
- **National and international associations** working for intercultural and humanitarian dialog, international cooperation, environmental protection and the restoration or conservation of the historical and artistic heritage. Some €145,000 were disbursed to Cortile dei Gentili, Doctors Without Borders, Coopermondo (projects in Palestine and Ecuador), Lega del Filo d'Oro, ADMO, Legambiente, Federparchi and Fondo Ambiente Italiano.

In addition, Iccrea Banca has earmarked €100,000 over five years (starting in 2016) for the Associazione Amici della Normale di Pisa. This contribution is intended to fund the establishment **a chair of economic history** to be named after President Carlo Azeglio Ciampi, at Palazzo Strozzi in Florence, where an advanced study institute will be established as a center for post-graduate and post-doctoral interdisciplinary education with a special focus on the international perspective.

Each year, the companies of the Iccrea Banking Group also support the **CRAL**, an employee group that promotes cultural, sporting and recreational initiatives for personnel. More specifically, since 2006 the CRAL has organized a national five-a-side football tournament for the mutual bank sector in a different venue each year. The event involves hundreds of mutual bank employees from all over Italy and interacts directly with the local communities in which the tournament is held. In 2016-2017, approximately 3,000 people took part in the tournament, with a major positive impact on the local communities in which event took place, thanks to the use of hotels, sports fields and various services by the participants.

Finally, a **crowdfunding** initiative was promoted to raise funds for the recent earthquake, using both banner ads with account details for traditional bank transfers and a specific online platform for credit card donations.

### Promoting urban development

With the establishment in 2006 of the Iccrea Banking Group headquarters and about 1,500 employees in the Lucrezia Romana neighborhood, previously largely uninhabited, the Group promoted the urban development of the area concerned, both from a residential and commercial point of view.

Beginning in 2015, BCC Solutions launched a project to develop an area of historical significance owned by the Iccrea Banking Group adjacent to our main offices in Via Lucrezia Romana in Rome. The project, which was close to completion in 2017, involved the construction of an **archaeological park** with an adjoining play area for children, all of which can be enjoyed by the community during the day. The site is located within an excavated archaeological area featuring the ancient route of the Via Latina between the sixth and seventh mile and a necropolis. The initiative is nearing completion and involved a collaborative effort between BCC Solutions, the Archaeological Superintendency of Rome and the City of Rome.

In particular, in synergy with the Superintendency and the technical offices of the City of Rome, BCC Solutions implemented a series of measures to prevent potential urban and visitor safety risks, including:

- Creation of paths inside the park using materials selected in agreement with the Superintendency;
- Construction of a new border fence;
- Creation of internal walkways to safely visit the archaeological park;
- Creation of the sidewalk in front of the archaeological park and of the public lighting system for pedestrian safety;
- Installation of a video surveillance system and night lighting inside the park.

Furthermore, BCC Solutions attends and supports the initiatives and activities promoted by the neighborhood committees that are involved with the areas concerned.

With regard to the activities of the corporate bank, during 2017 Iccrea BancaImpresa continued to manage the **JESSICA funds**, a program launched some years ago by the European Union in collaboration with the European Investment Bank to support energy efficiency and sustainable territorial development in Sicily and Campania, with an undoubted positive impact on the quality of life.

In addition, Iccrea BancaImpresa has agreed a number of financing operations for social and healthcare facilities and has acquired additional projects to increase the supply of financial services to support the third sector, responding to the needs of the community dictated by the progressive aging of the population and to support the disabled.

### Community involvement initiatives

The involvement and development of the territory and communities are an integral part of the Iccrea Banking Group mission. The Group organizes **educational activities**, conferences and meetings on issues of common interest and in the field of financial education for local communities, mutual bank shareholders, businesses and cooperatives operating in the area. Training initiatives for certain financial products are also delivered through the digital channel, thanks to the pages on the main social networks dedicated to selected brands of the Iccrea Banking Group, such as Carta BCC and CrediPer.

The Group has organized conferences on micro credit and finance in the energy sector. Some 38 conferences were organized by the Group's Marketing department to examine international operations and the Central Guarantee Fund, with the involvement of 37 mutual banks and a total of 3,846 participants. In collaboration with Assilea, a number of information and training meetings were organized on the 2017 Budget Act in order to inform the business customers of the mutual banks and local accounting organizations of the main measures in that legislation, such as: the Sabatini mechanism, the super depreciation and hyper depreciation measures, and developments in the Industry 4.0 program. In collaboration with Assilea, the Group also organized 25 conferences on the Stability Act, with the involvement of 34 mutual banks and a total of 2,876 participants.

In addition, the Iccrea Banking Group sponsored numerous initiatives on a variety of topics, including:

- **Environment**, through participation in Festambiente, the international festival on ecology organized each year by Legambiente;
- **Culture and territory**, through support for the Apoxiomeno Prize, a prestigious international award given to business, journalism and sports personalities who have contributed to spreading the culture of legality, celebrating the work of law enforcement organizations around the world.

- **Cultural and social issues**, through the sponsorship of the Anthos production company for the film *L'Amore Rubato*, which promotes the fight against gender violence.
- **Scientific, cultural, artistic and technological dissemination**. In 2017 the Group sponsored TEDEX Roma, the cultural event organized in Italy by the international non-profit organization TED.

In the environmental field, Iccrea Banca signed an agreement with Legambiente in 2017 for the promotion of green economy initiatives, energy efficiency, renewable sources, agro-ecology and good environmental practices. The agreement provides for the organization of dissemination and information activities on these issues, including the development of an app, with the collaboration of Legambiente and financial support for the initiatives from Iccrea Banca. The agreement is part of efforts to ensure continuity in the relationship between Legambiente and the world of mutual banking, which began in 2006 with the signing of the first agreement between Legambiente and Federcasse.

### Relationships with universities

The Iccrea Banking Group has entered into agreements with various Italian universities and educational institutions to organize internship programs aimed at actively promoting the integration of young people into the world of work. In particular, during 2017, the Group collaborated with the following institutions:

- Università degli Studi di Roma Tor Vergata
- Università degli Studi di Roma La Sapienza
- Luiss - Libera Università Internazionale degli Studi Sociali Guido Carli di Roma
- Università Commerciale Luigi Bocconi di Milano
- Università degli Studi di Udine
- Università di Pisa
- Università degli Studi di Milano Bicocca
- ACTL (Associazione per la Cultura e il Tempo Libero) – sportello stage

## 8. HUMAN RESOURCE MANAGEMENT

### 8.1. The personnel of the Iccrea Banking Group

Employees are an indispensable resource for the Iccrea Banking Group as it is thanks to their involvement and their abilities that the Group is able to achieve its corporate objectives. The Group recognizes the central role played by its staff and calls on them to act with professionalism, dedication, loyalty, honesty and a spirit of collaboration in line with the principles and values of the Iccrea Banking Group, which stand on a foundation of ethics and integrity.

In the management of human resources, the Iccrea Banking Group offers all its employees the same opportunities with no discrimination in the selection, recruitment, training, management, development and remuneration of personnel. The Group, in fact, fights any kind of discriminatory differentiation, harassment and mobbing of its personnel.

The selection and hiring of personnel are carried out by Group companies in compliance with the values of equal opportunity, equality and personal growth. All hiring is conducted in compliance with the provisions of the law, the **Workers' Statute** and the applicable **national collective bargaining agreement**.

In its human resource management, the Group has enshrined, the principles of mutual respect, fair treatment and meritocracy within the Code of Ethics and Conduct, as well as the commitment to the fight against any form of favoritism, nepotism or discrimination.

The Iccrea Banking Group believes in the importance of staff engagement with a view to increasing the sense of belonging and continuous development, creating communication initiatives and tools and adapting them to the specific needs of those involved. To this end, the Group undertakes to recognize and leverage the skills of its human resources, providing appropriate training and updating tools.

At the end of 2017, the Group has 2,356 employees, of whom 39% are women. Compared with the previous year, the workforce decreased as a result of 228 employees leaving the company while only 80 new employees joined during the year, with a negative turnover rate of 9.7%. The reduction in the workforce specifically reflected the transfer to the mutual banks of Banca Sviluppo employees and the retirement of 93 workers, who are participating in the Solidarity Fund under a trade union agreement.

Almost all employees are employed on open-ended contracts, while 43 have fixed-term contracts. In addition, during the year, 126 employees worked on part-time contracts. Finally, about 60% of employees are aged between 30 and 50 years.

#### EMPLOYEES BY GENDER AND EMPLOYMENT CATEGORY \*

Employment category	Men	Women	Total
Executives	58	3	61
Managers	686	255	941
Office staff	698	656	1,354
<b>Total</b>	<b>1,442</b>	<b>914</b>	<b>2,356</b>

\* The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

**EMPLOYEES BY EMPLOYMENT CATEGORY, GENDER AND AGE GROUP \***

Employment category	Men	Women	Total
<b>Executives</b>	<b>58</b>	<b>3</b>	<b>61</b>
<i>under 30</i>	-	-	<b>0</b>
<i>between 30 and 50</i>	17	2	<b>19</b>
<i>over 50</i>	41	1	<b>42</b>
<b>Managers</b>	<b>686</b>	<b>255</b>	<b>941</b>
<i>under 30</i>	0	1	<b>1</b>
<i>between 30 and 50</i>	269	123	<b>392</b>
<i>over 50</i>	417	131	<b>548</b>
<b>Office staff</b>	<b>698</b>	<b>656</b>	<b>1,354</b>
<i>under 30</i>	32	27	<b>59</b>
<i>between 30 and 50</i>	480	475	<b>955</b>
<i>over 50</i>	186	154	<b>340</b>
<b>Total</b>	<b>1,442</b>	<b>914</b>	<b>2,356</b>

\* The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

**TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT CONTRACT \***

Employment category	Men	Women	Total
Fixed-term contract	19	24	<b>43</b>
Open-ended contract	1,423	890	<b>2,313</b>
<b>Total</b>	<b>1,442</b>	<b>914</b>	<b>2,356</b>

\* The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

**TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT AND GENDER \***

Employment category	Men	Women	Total
Full-time	1,433	797	<b>2,230</b>
Part-time	9	117	<b>126</b>
<b>Total</b>	<b>1,442</b>	<b>914</b>	<b>2,356</b>

\* The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

**Respect for diversity**

As expressly set out in the Code of Ethics and Conduct, the Iccrea Banking Group considers respect for individual freedoms to be an essential principle.

Group employees can use a dedicated tool or written communication to report any incidents of discrimination. Any complaint of discrimination is brought to the attention of the Group companies, which take appropriate disciplinary measures against those who conduct themselves or abuse their position of authority within the Group in a discriminatory manner. The Group has developed an internal policy for whistleblowing systems to enable staff to report acts and facts that may constitute an infringement of the rules governing banking activity, while ensuring the confidentiality and protection of the personal data of the individual making the report and the individual being reported.



## 8.2. Remuneration of personnel

The Iccrea Banking Group has established a remuneration system designed to attract, motivate and value people with the professional qualities required by the business. This system is structured in accordance with the principles of fairness, transparency and honesty.

The Group periodically reviews its **remuneration and incentive policies** in compliance with external regulations, through which it ensures that remuneration systems promote the creation of the best conditions for the professional achievement of all employees by enhancing the potential of individuals through effective, fair and transparent processes aimed at promoting, recognizing and rewarding professional skills and their development.

The remuneration system implemented by the Iccrea Banking Group consists of a fixed and a variable component. For the fixed component, the Group uses the items envisaged in the national collective bargaining agreement. The variable component, on the other hand, is determined with annual incentive system broken down for the different categories of employee, which provides for the payment of a bonus linked to the achievement of specified performance targets.

This incentive system is intended stimulate people's motivation to achieve the specified improvement objectives and enables the Group to reward the personnel who have contributed most to the achievement of corporate objectives in line with the strategic plans.

### BASE SALARY OF WOMEN AS A PROPORTION OF BASE SALARY OF MEN BY EMPLOYMENT CATEGORY \*

Employment category	2017	2016
Executives	71%	90%
Managers	86%	86%
Office staff	94%	93%

\* The figures for base salary are those for gross annual salary (GAS) for each employee category. The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

### AVERAGE REMUNERATION OF WOMEN AS A PROPORTION OF AVERAGE REMUNERATION OF MEN BY EMPLOYMENT CATEGORY

Employment category	2017	2016
Executives	71%	88%
Managers	86%	86%
Office staff	93%	93%

\* The figures for average remuneration are those for global annual remuneration (GRA). The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

The Iccrea Banking Group's remuneration of executives in 2017 shows a disparity between women's and men's salaries. This change was mainly attributable to the departure of a woman in a senior position from the company. Furthermore, there were no changes between GAS and GRA in 2017 following the failure to exceed the hurdles envisaged in the incentive system policy.

For the remaining personnel, the difference between men's and women's salaries also due to the greater impact of part-time contracts: 14% of female employees have a part-time work contract.

## 8.3. Training and development

Faced with the continuous technological evolution of banking services and the transformation of sector regulations, the Group considers the development of skills and professional growth to be of fundamental importance for its employees.

To this end, the Iccrea Banking Group has established a Development and Change Management department at the Parent Company, which among other things is responsible for managing technical-specialist, mandatory and behavioral training activities. Management of training activities associated with the personal and professional growth of employees is the responsibility of the Human Resource Development unit within the department.

Training initiatives for the employees of the Iccrea Banking Group fall into two main categories, depending on who is organizing the initiative and how it is being managed:

- **Centralized training**, which includes all the training and development initiatives planned and delivered internally by the Parent Company.
- **Individual training**, which includes courses, conferences, seminars, workshops and webinars organized and delivered by different training organizations outside the Group through their own channels. In this case, the Training unit of the Parent Company acts as an intermediary between the participant and the training organization.

For centralized training, the training plan is prepared following a survey of training needs, in which the managers of the various company departments provide specific indications regarding the training areas and the courses deemed useful for the development of their staff. The Training unit analyzes the survey data and uses this information to develop a training plan that is consistent with the strategies set out by top management.

With regard to human capital development initiatives, the Group defines the annual objectives on a centralized basis, in line with the strategies set out by top management and uses these as a basis for structuring the paths and activities instrumental to their achievement.

The Group also monitors training activities and their appropriateness to the needs expressed by employees, using questionnaires to get feedback on course content and organizational aspects.

In 2017, the Iccrea Banking Group also implemented an **online platform** to manage training activities, providing information on courses, enrollment processes, registration of attendance and monitoring of training activities.

## HOURS OF TRAINING PROVIDED BY THE GROUP BY GENDER AND EMPLOYMENT CATEGORY

Hours of training	Men	Women	Total
Executives	3,747	197	<b>3,944</b>
Managers	24,618	9,239	<b>33,857</b>
Office staff	19,330	19,088	<b>38,418</b>
<b>Total</b>	<b>47,694</b>	<b>28,524</b>	<b>76,218</b>

\* The figures are those for training hours provided by the company to its employees. The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

## NUMBER OF EMPLOYEES INVOLVED IN TRAINING ACTIVITIES BY GENDER AND EMPLOYMENT CATEGORY <sup>1</sup>

Employees involved	Men	Women	Total
Executives	65	4	<b>69</b>
Managers	723	261	<b>984</b>
Office staff	728	707	<b>1,435</b>
<b>Total</b>	<b>1,516</b>	<b>972</b>	<b>2,488</b>

\* The figures are those for the total number of employees for whom the company provided training courses. The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

<sup>1</sup>The number of employees receiving training in 2017 is greater than the number of Group employees at December 31, 2017 reported in the table on page 33. This is due to the fact that a number of employees left the Group, including through participation in the Solidarity Fund, before the end of 2017.

## AVERAGE NUMBER OF HOURS OF TRAINING BY GENDER AND EMPLOYMENT CATEGORY

Average training hours	Men	Women	Total
Executives	65	66	<b>57<sup>1</sup></b>
Managers	36	36	<b>36</b>
Office staff	28	29	<b>28</b>

\* The figures are those for the total number of employees at December 31, 2017 for whom the company provided training courses. The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

### Hours of training by type (2017)



An integral part of the skills development activities of Group employees is the annual **professional evaluation** process. During the year, approximately 70% of employees receive a review of their job performance, with the actual percentage of employees undergoing evaluation in each Group company varying from a minimum of 65% to a maximum of 94%.

## NUMBER OF EMPLOYEES WHO RECEIVED PERFORMANCE AND CAREER DEVELOPMENT REVIEWS<sup>1</sup>

Employees evaluated	Men	Women	Total
Executives	2	1	<b>3</b>
Managers	446	171	<b>617</b>
Office staff	549	516	<b>1,065</b>
<b>Total</b>	<b>997</b>	<b>688</b>	<b>1,685</b>

\* The evaluations received by employees in 2017 regard performance in 2016. The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

<sup>1</sup> The figures do not include evaluations associated with achievement of annual objectives (MBO).

## PERCENTAGE OF EMPLOYEES WHO RECEIVED REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS DURING THE REPORTING PERIOD BY GENDER AND EMPLOYMENT CATEGORY

Employees evaluated	Men	Women	Total
Executives	3%	33%	5%
Managers	62%	67%	66%
Office staff	77%	79%	79%
<b>Total</b>	<b>69%</b>	<b>75%</b>	<b>72%</b>

\* The evaluations received by employees in 2017 regard performance in 2016. The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

In 2017, the **360° Feedback** tool on the norms of behavior of the Iccrea Banking Group was also introduced in the evaluation process. It enables each person to receive feedback from colleagues, collaborators and their manager.

## Norms of behavior of the Iccrea Banking Group

<b>Cooperation</b>	Openness and attention to others in order to forge a common good together, responsibly and knowingly, going beyond the individual.
<b>Openness</b>	We create opportunities out of the needs of our customers
<b>Excellence</b>	Continuously improving with passion and creative drive
<b>Merit</b>	We recognize valuable contributions.
<b>Courage</b>	Having the heart to achieve change with entrepreneurial accountability.

Between 2016 and 2017 the Internal Communication unit organized numerous initiatives to promote and internalize the norms of behavior, including a communication campaign with direct involvement of Iccrea staff, displays at the Rome and Milan offices, a dedicated section on the Group's internal portal and the creation of **Value Stories**, short films focusing on the five values starring Iccrea personnel.

### 8.4. Caring for the welfare of employees and people care

Since 2013, the Iccrea Banking Group has developed a welfare system, establishing the Industrial Relations and People Care unit. The system has tools and solutions aimed at promoting the well-being of people and forging a better balance between professional and private life, to be combined in a socially responsible way.

More specifically, since 2014 the Group has allowed its employees to convert all or part of their performance bonus into corporate welfare benefits and services. An integral part of this program is the activation of **flexible benefit** plans, which allow employees to obtain an annual reimbursement for expenses incurred for child care and education services, to use assistance services for elderly relatives and to repay interest on mortgages for the construction, renovation and purchase of primary or secondary homes. Moreover, to simplify the use of flexible benefits by all employees, the Group has implemented the **Easy Welfare** digital platform.

The people care model implemented within the Group offers a structured range of work-life balance solutions that promote flexibility in working hours (leave, part-time work, etc.), sustainable mobility and solidarity among employees through holiday transfer initiatives.

The Group offers its employees an articulated system of facilitations and subsidies, family benefits for public transport passes, special agreements with vendors, scholarships, etc.

Beginning in 2016, the **Mobility Management** function was established with the appointment of a Group Mobility Manager to implement a range of initiatives for public transport and carpooling.

To support the families of employees, the Group set up a **company nursery** in 2017. This structure, adjacent to the Lucrezia Romana complex, can accommodate up to 30 children, staffed by highly qualified educators.

As regards work flexibility and solutions to reconcile private and working life, the Group launched an experimental project during the year for the dissemination of **smart working** solutions among its employees. Through the use of flexible forms of work, the Group wants to give workers greater flexibility in choosing the when and where they work to achieve increasingly challenging company objectives.

Finally, the Group also established “**solidarity holidays**” during the year to support employees suffering from serious medical conditions or who need leave to assist family members. Under this system, Iccrea Banking Group employees can voluntarily transfer part of their holiday entitlement to support their colleagues in need. In addition, for each voluntary donation the company contributes an equal number of days to the solidarity holiday pool.

## 8.5. Occupational health and safety

The Iccrea Banking Group, aware of the importance of guaranteeing optimal health and safety conditions in the workplace, is constantly engaged in promoting and encouraging responsible behavior among its employees and in preserving the health and safety of all staff and third parties present on our premises.

Recently, a major renovation of the Lucrezia Romana head office was carried out, housing the some 2,300 employees in a “citadel” designed to ensure compliance with anti-seismic regulations, by eco-sustainable and preserve the safety of workers.

All employees are required to collaborate, to the extent to which they are responsible, in maintaining a healthy, safe and efficient work environment, observing internal rules on workplace safety, as provided for by Legislative Decree 81/08. In particular, they must not act in a manner that could jeopardize the safety of their colleagues or other people or create a risk of damage to property or plant. They are required to use company assets, premises, furnishings, infrastructures and their work equipment with diligence and care.

The Group has created an **Occupational Health and Safety Management System** in accordance with UNI INAIL guidelines, with certification of conformity from an external organization. Beginning in 2016, this system, which was initially designed for the individual companies, was extended to the Group level. Banca Sviluppo, BCC Sistemi Informatici and Ventis currently do not fall within the scope of the system.

In order to harmonize and direct activities related to occupational health and safety at each company within the Group's Occupational Health and Safety Management System, the **Intragroup Committee for Occupational Health and Safety** was set up, chaired by the health and safety sub-delegate of BCC Solutions, with the participation of the health and safety sub-delegates of the other Group companies and the Occupational Health and Safety Management System Officers of the companies involved.

In accordance with the Occupational Health and Safety Management System, the Group, as required by law, has designated the people responsible for managing the health and safety of workers and has assigned health surveillance activities to physicians present in the different companies, who are responsible for the ongoing monitoring of the health of employees and the hygiene of workplace premises.

Furthermore, in accordance with the applicable regulations, the Group has designated a Worker Safety Representative, who is involved in the processes of risk assessment and the development of prevention and training processes.

Although the Group has determined workers are exposed to a low level of risk, it adopts a preventive approach through an annual plan of improvement measures, which comprises the workplace safety measures that the various companies are required to implement.

In 2017, 30 injuries were recorded, of which the majority were incurred travelling to or from work, with no fatal incidents.

## INJURIES AND INJURY RATES \*

	Men	Women	Total
<b>Number of injuries</b>	<b>15</b>	<b>15</b>	<b>30</b>
At work	4	5	9
Travelling to and from work	11	10	21
<b>Cases of occupational disease</b>	-	1	1
<b>Days lost to injuries</b>	<b>397</b>	<b>374</b>	<b>772</b>
At work	106	180	286
Travelling to and from work	291	195	486
<b>Injury rate</b>	<b>5.941</b>	<b>11.115</b>	<b>7.743</b>
<b>Lost day rate</b>	<b>0.158</b>	<b>0.278</b>	<b>0.200</b>
<b>Occupational disease rate</b>	-	1.48	0.52

\* The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

### Notes on calculation of rates:

Lost day rate (Number of days lost to injuries / Total number of hours worked) \*1,000

Injury rate (IR): (Total number of injuries / Total number of hours worked) \*1,000,000

Occupational disease rate (ODR): (Total number of cases of occupational diseases / Total number of hours worked) \*200,000

## EMPLOYEE ABSENTEEISM BY TYPE \*

Days of absence by type	Men	Women	Total
Illness	8,830	7,668	16,498
Injury	397	374	772
Stress	-	-	-
<b>Absentee rate</b>	<b>2%</b>	<b>3%</b>	<b>3%</b>

\* The figures do not include BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l.

### Notes on calculation of rate:

Absentee rate: calculated as the number of days of absence due to injury, illness, leave for union duties and strikes divided by the number of working days in the year.

## 8.6. Trade union relations

In the Iccrea Banking Group, relations with trade unions are inspired by the principles of honest dealing and respect for roles, as well as compliance with the applicable rules, all with the goal of achieving consensus for growth, competitiveness and sustainable employment.

After a long period of considerable conflict, 2017 saw the re-establishment of a healthy and constructive dialogue with the union, in which the negotiators sought out shared solutions to occupational, professional, economic and regulatory issues for the benefit of personnel, keeping abreast of the reorganization of the operational and corporate structures of our Group.

In 2017 the impact on structural personnel costs of the application of the trade union agreement of July 26, 2016 made itself felt, with 93 employees - 12 of whom executives – receiving support under the Mutual Bank Solidarity Fund.

In October, an important agreement on employee work-life balance was signed, with the introduction of smart working measures, solidarity holidays, the company nursery and hourly parental leave. The smart working measures make it easier for employees to reconcile the demands of the workplace with personal and family needs. Employees can work from home, in specially set up company spaces, from other mutual bank premises and other previously identified locations. Flexible work, which places the individual at the center of the relationship, is fostering profound cultural change, strengthening the relationship of trust and mutual accountability between managers and employees, between the company and the worker. Employees whose jobs are appropriate for the smart working system participate on a voluntary basis, and can work from a different location three or four days a week.

Finally, in December, after extended negotiations, an agreement on the establishment of the **Group Trade Union Delegation** was finally signed. It will permit more streamlined and effective management of trade union relations.

In 2017, the company agreed a range of innovative solutions with the trade unions with a view to acknowledging the greater organizational and work commitment required from personnel under the 2016-2019 cost reduction plan. In November, an agreement was reached on the payment of the performance bonus, based on an amount envisaged under the cost reduction plan and tied to developments in the consolidated gross operating margin. The amount awarded could also be used through the mechanisms provided for in the flexible benefit system, i.e. in the form of reimbursements, for example, of costs childcare or assistance services for elderly/non-self-sufficient family members, or as a payment to employees' supplementary pension fund through the corporate welfare platform.

The Iccrea Banking Group actively involves worker representatives in the health and safety issues envisaged by Legislative Decree 81/08. This collaborative effort meant that it was not necessary for the Group to reach specific agreements with the trade unions on occupational health and safety issues.

## 9. SUPPLY CHAIN MANAGEMENT

The Group has prepared specific internal rules to govern the process of managing suppliers and procuring goods and services for the Group companies, in compliance with the applicable legislation in this area (Legislative Decree 231/01, privacy, anti-money laundering, “relevant persons”).

The process for evaluating and selecting Iccrea Group suppliers is based on a careful technical and economic analysis of a variety of parameters, such as the analysis of the product, the offer, pricing, the technical and professional appropriateness, competence and reliability, and service quality. In the selection process, the Group also assesses the suppliers’ possession of **certifications**, such as ISO 14000 and ISO 18000.

In specific cases provided for in the relevant internal rules, the Iccrea Banking Group verifies that the supplier’s officers meet integrity and reputability requirements.

In the Code of Ethics and Conduct, the Group emphasizes, among other things, the importance of ensuring that relations with suppliers are conducted in compliance with the law and current internal rules. To this end, the Group makes all suppliers aware of the contents of the Code and requires compliance with the principles expressed in it. Any violation of the general principles of the Code by the suppliers is grounds for exercising the termination clauses included in the individual supply contracts.

In general terms, the Group avails itself of suppliers to provide services, products and instruments necessary to pursue and enhance the efficiency of banking activities, property management, ICT activities and services, logistics, marketing and personnel.

During 2017, the Group involved 1,645 suppliers in its procurement processes for goods and services, with 91% of them drawn from suppliers resident in Italy and in the Bank’s main areas of operation.



## 10. ENVIRONMENT

### 10.1. The environmental impact of offices and branches

The Iccrea Banking Group pays particular attention to environmental protection issues, including with regard to the opportunities for savings that can be pursued through energy efficiency measures, compliance with sector regulations, and coherence with the objectives defined in the Strategic Plan.

The Group considers the environmental heritage to be a public good whose protection requires not only full compliance with the relevant legislative requirements, but also the commitment of all personnel for the continuous improvement of services. Therefore it adopts all measures aimed at reducing the environmental impact of its activities, through the rational use of resources, the search for innovative and effective solutions, reducing the impact of its activities, the promotion of responsible attention by all internal and external actors.

More specifically, the environmental management of the Group's buildings is entrusted to BCC Solutions, which manages real estate and logistics services for Group companies. The company is responsible for the governance of real estate projects involving the Group's premises, ensuring their efficient management and the necessary quality of real estate and logistics services.

During 2017, we continued the **restyling and energy efficiency upgrade**, managed by BCC Solutions, of the external facades of the various buildings that make up the Group's Via Lucrezia Romana complex in Rome. In addition to achieving a 67% reduction in the heat transfer of the façade, the project also saw the construction of a photovoltaic system for internal power generation (see the project description in the following table). The Iccrea Banking Group's renovation and energy efficiency project at the Rome offices enabled the Parent Company to win the **2017 Legambiente Prize** "Good Practices for Renewable Sources and Energy Efficiency".

Progress in limiting greenhouse gas emissions was also achieved thanks to the launch of the Group "**Car Policy**". This sets out the general principles for the assignment, use and management of the cars of the Group's vehicle fleet. The definition of specific parameters for the selection of company cars assigned to executives is an important part of environmental protection, with standards and limits for power, consumption and carbon dioxide emissions.

The Group implements a series of initiatives and activities to protect the environmental heritage and reduce its own impact.

## Environmental initiatives

### Informed use of paper

Reduction of paper use thanks to electronic signature

BCC Sistemi Informatici initiated the Electronic Signature Service, which consists in acquiring the customer's signature directly on a special tablet that allows the electronic registration of biometric data and the generation of documents in digital format, replacing paper documentation.

### Energy efficiency and reduction of CO<sub>2</sub> emissions

Restyling and energy efficiency upgrade of Lucrezia Romana headquarters complex

BCC Solutions managed the project for the expansion, restyling and energy efficiency upgrading of the Via Lucrezia Romana headquarters in Rome. With regard to the restyling and energy efficiency modifications, the old facades of the building, dating back to the 1990s, were replaced with new material with a low degree of heat transfer. Thermal performance was evaluated in accordance with the provisions of Decree 311/2006. The new façade cladding covers an area of 16,800 square meters and has made it possible to achieve the goal of reducing the heat dispersion of the façade by 67%:

- average transmittance before works 2.32 W/mqK
- average transmittance after works 0.75 W/mqK

To enable the generation of electricity from a renewable internal source, a photovoltaic system with a capacity of 74.25 kW has been set up on Building B of the headquarters complex. It will include twenty-two 250 W modules over an area of 1,100 square meters. It is estimated that annual electricity generation will amount to about 107,066 kWh, enough to meet 10% of the annual consumption of the Building B offices.

BIT Energia consortium

The Group is a founding shareholder of BIT, which operates with leading banks to provide the Bank and their clients with the tools they need to meet the challenges posed by the sectors related to the agriculture and food production industries and measures for the rational use of energy and renewable energy sources, making available its specialized expertise in the fields of agriculture, food production and the environment.

The Iccrea Banking Group purchases electricity from the BIT Energia consortium, an energy services company serving the mutual banks and their customers who operate in the fields of energy efficiency, the free energy market and the renewable energy sector

"M'illumino di Meno" initiative

The Iccrea Banking Group participated in the "M'illumino di Meno" initiative, whose theme in 2017 was "Sharing the energy". The event asked Group companies to adopt virtuous energy saving behavior (turning off lights and non-essential equipment, and illuminated signage at offices and branches) and to organize specific initiatives on the theme of sharing, transmitting a significant "mutual" message.

Furthermore, in 2017 the Board of Directors of Iccrea BancaImpresa approved **General Rules for the Environmental Risk Mitigation Process**. This standard, which will soon be implemented at the operational level, is mainly intended to identify control functions to mitigate the risk of potential environmental offenses that the Bank might commit in the provision of banking services to existing or potential customers. The foregoing

essentially applies to the real estate leasing sector, giving the bank's role as owner and lessor of assets under finance leases.

The model adopted – which holds for all forms of pollution, but with a particular focus on certain types (for example the presence of asbestos) – envisages prevention, analysis and control mechanisms throughout the entire lending process, from the valuation of the asset when credit is granted through to recovery of the asset. The model provides for both the involvement of the network of existing experts and, where necessary, of organizations specialized in the analysis and reclamation of potentially polluted sites.

### Energy consumption and emissions

The Iccrea Banking Group monitors its direct emissions created by the direct consumption of energy produced by the use of natural gas for heating (Scope 1) and indirect emissions deriving from the consumption of electricity purchased from third parties (Scope 2).

During the year the Group consumed 83,093 GJ of energy. The Group's energy consumption is mainly linked to the use of heating and air conditioning systems, office lighting systems and the use of the company vehicle fleet.

The offices and most of the Group's agencies have an electrically powered heating/cooling system. The remaining gas-powered agencies had direct energy consumption for heating of 13,172 GJ. The Group consumed 12,298 GJ of energy during the year for the use of the vehicle fleet (diesel powered). In addition, the Group purchased and consumed 56,182 GJ of electricity during the year, coming entirely from renewable sources with a certification of origin and 1,441 GJ of thermal energy from district heating.

### DIRECT ENERGY CONSUMPTION BY SOURCE

	Unit	2017	2016
<b>Heating</b>		<b>13,172</b>	<b>8,509</b>
Natural gas	GJ	13,172	8,509
<b>Vehicle fleet</b>		<b>12,298</b>	-
Diesel*		12,298	-

\*In calculating energy consumption, we consider 70% of diesel consumption by cars used for personal and business purposes. The 70% figure was determined by applying the provisions of Article 51, paragraph 4(a) of the Uniform Income Tax Code to the calculation of emissions.

\*\* Data for vehicle fleet consumption in 2016 are not available.

### INDIRECT ENERGY CONSUMPTION BY SOURCE

	Unit	2017	2016
<b>Electricity</b>		<b>56,182</b>	<b>34,099</b>
From non-renewables		-	-
From renewables	GJ	56,182	34,099
<b>District heating</b>		<b>1,441</b>	<b>1,206</b>
From non-renewables		1,441	1,206
From renewables		-	-

Against this energy consumption, the Iccrea Banking Group registered greenhouse gas emissions equivalent to approximately 1,743.07 metric tons of CO<sub>2</sub> equivalent in the year.

## GREENHOUSE GAS EMISSIONS

	<i>Unit</i>	<i>2017</i>
<b>Total emissions *</b>		<b>1,743.07</b>
<b>Scope 1 emissions</b>		<b>1,662.42</b>
From heating	<b>metric tons of CO<sub>2eq</sub></b>	750.28
From use of vehicle fleet		912.14
<b>Scope 2 emissions</b>		<b>80.65</b>
From district heating**		80.65

\* Emissions are given in metric ton of CO<sub>2</sub> equivalent and include emissions of CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O, as provided for in the guidelines on the application in banks of GDI environmental indicators issued by AbiLAB.

\*\* Emissions from district heating are estimated on the basis of the average emission factors defined by ISPRA for the fuel used to produce thermal energy by the supplier.

## OTHER EMISSIONS

	<i>Unit</i>	<i>2017</i>
<b>NOx emissions</b>		<b>1.26</b>
From heating	<b>metric tons</b>	0.40
From use of vehicle fleet		0.61
<b>Sox emissions</b>		<b>0.58</b>
From use of vehicle fleet		0.58

## 11. METHODOLOGICAL NOTES AND GRI INDICATORS

### Standards applied

The Consolidated Non-Financial Statement of the Iccrea Banking Group (hereinafter also the "Statement"), prepared in accordance with Article 4 of Legislative Decree 2554/2016 (hereinafter also the "Decree"), contains information concerning environmental, social, personnel-related, human rights compliance and anti-corruption issues helpful in providing stakeholders with an accurate, comprehensive and transparent vision of the strategies, activities undertaken, the Group's performance and results from it has achieved in ensuring its financial growth and business development, taking account of the expectations of the stakeholders involved and seeking continuous improvement in the environmental and social impacts generated by its activities.

This Statement, which will be published on an annual basis, has been drawn up pursuant to Legislative Decree 231/2004 and the reporting standards used are the "GRI Sustainability Reporting Standards" ("in compliance" - core option), issued by the Global Reporting Initiative (GRI). These guidelines are currently the most widely adopted and internationally recognized standard for non-financial reporting. Furthermore, where appropriate, the indications of the GRI G4 Financial Services Sector Disclosure have been applied. In order to facilitate readers in tracing information within the document, the GRI Content Index is shown on page 52.

The information included in non-financial reporting reflects the principle of materiality or relevance, a characteristic that is provided for in the relevant legislation and characterizes the GRI Standards: the topics covered in the Statement are those that, following an analysis and evaluation of materiality (described on page 14 of this document) were considered relevant, as they can reflect the social and environmental impacts of the Bank's activities or influence the decisions of its stakeholders.

The 2017 Consolidated Non-Financial Statement of the Iccrea Banking Group has undergone a limited review ("limited assurance engagement" in accordance with ISAE 3000 Revised) by the audit firm EY SpA. The report describing the procedures carried out and the related conclusions is available on page 58.

### Scope of the Statement

The qualitative and quantitative information contained in the Statement refer to the performance of the Group for the year ended December 31, 2017.

If useful for the purposes of the comparison or contextualization of the information, data for 2016 have been included and duly indicated, with the exclusion of certain exceptions, for which only a summary and qualitative comparison with previous years has been provided on the occasion of first-time application of the regulations, as provided for in the Decree.

The data and information refer to all fully consolidated Group companies included in the consolidated financial statements at December 31, 2017, with the exception of BCC Beni Immobili S.r.l., FDR Gestione Crediti S.p.A. and Ventis S.r.l., as these companies are not considered material in understanding the Group's business, its performance, its results and the impact it generates, as defined in Article 3 of Legislative Decree 2015/2016. The businesses of these entities differ from the core business of the Group and their small size means that their non-inclusion does not prejudice the comprehensiveness of the representation provided in this document.

In addition, we should emphasize that the energy data cover the **reporting scope of BCC Solutions, the 14 Group offices managed by BCC Solutions, Banca Sviluppo and BCC Sistemi Informatici**. This area corresponds to over 90% of the Group total. The management of the supply and consumption of energy for all these companies is performed by a single external provider. There may be an additional narrowing of scope connected with certain individual corporate premises, of little importance, not managed by the energy provider. Finally, the Group's consumption of water is limited to ordinary civil uses and to fire-fighting systems and should therefore be considered as not material for the purposes of this Statement.

## Materiality analysis

In order to select the individual topics for which non-financial disclosures would be provided pursuant to Legislative Decree 254/2016, a materiality analysis was conducted in accordance with the provisions of the “GRI Sustainability Reporting Standards”. The main phases of the process adopted for this analysis are briefly described below:

- internal identification of possible non-financial topics relevant to the financial sector, through peer analysis, reports published by ESG analysts and rating agencies (Environmental, Social, Governance), sectoral studies and the media;
- internal prioritization of the topics identified, with the involvement of the main company departments participating in the non-financial reporting process;
- approval of the material topics in conjunction with the approval of this Statement.

The initial phase of materiality analysis and identification of the related indicators also saw the involvement of Federcasse, the national federation of mutual banks, representing the mutual banks, which, being both shareholders and customers of the Iccrea Banking Group, are the Group’s the main external stakeholder.

## Contacts

For more information and details on the contents of the Statement, please contact Iccrea Banca's Institutional and International Relations unit at [DNF@iccrea.bcc.it](mailto:DNF@iccrea.bcc.it).

## RECONCILIATION OF MATERIAL TOPICS AND GRI STANDARDS:

Material topics identified by the bank	GRI reference standard	Scope of impacts		
		Internal impact	External impact	Limitations
Ethics and integrity in corporate conduct	Ethics and integrity Anti-corruption	•		
Development of products and services with environmental and social purposes	Product portfolio *	•		
Development of future markets	**	•		
Protection of privacy and personal information	Customer privacy	•		
Responsible lending	**	•		
Customer satisfaction and quality of service	**	•		
Responsible supply chain management	Procurement practices	•		
Engagement and community development	Indirect economic impacts Local communities	•		
Transparency of information on products and services	Marketing and labeling	•		
Professional training and development	Training and education	•		
Employee wellbeing	Employment Diversity and Equal Opportunity	•		
Workplace health and safety	Occupational health and safety	•		
Management, attraction, development and retention of talent	Training and education	•		
Managing environmental impact of offices and branches	Energy Emissions	•		
Systematic risk assessment	Strategy	•		

\* The GRI aspects regard the "GRI-G4 Financial Services Supplement"

\*\* With regard to this issue (which is not directly connected with an aspect envisaged in the GRI Standards), the Group reports the management approach adopted and the associated indicators in the document.

## 12. GRI INDICATORS

The table below shows the summary of the GRI indicators reported, with the relative page references and any notes or omissions. Furthermore, for the material themes not referable to a GRI indicator, the reference of the pages in which they are reported is provided.

<b>GRI Content Index</b>			
<i>GRI standard</i>	<i>Standard description</i>	<i>Page number and notes</i>	<i>Omissions</i>
<b>GRI 102: GENERAL DISCLOSURES</b>			
<b>ORGANIZATIONAL PROFILE</b>			
GRI 102-1	Name of the organization	7	
GRI 102-2	Activities, brands, products, and services	7,8	
GRI 102-3	Location of headquarters	8	
GRI 102-4	Location of operations	8	
GRI 102-5	Ownership and legal form	13	
GRI 102-6	Markets served	7,8	
GRI 102-7	Scale of the organization	8	
GRI 102-8	Information on employees and other workers	35, 36	
GRI 102-9	Supply chain	44	
GRI 102-10	Significant changes to the organization and its supply chain	10, 42, 43	
GRI 102-11	Precautionary principle or approach	15	
GRI 102-12	External initiatives	9	
GRI 102-13	Membership of associations	11, 12	
<b>STRATEGY</b>			
GRI 102-14	Statement from senior decision-maker	5, 6	
GRI 102-15	Key impacts, risks, and opportunities	17, 18	
<b>ETHICS AND INTEGRITY</b>			
GRI 102-16	Values, principles, standards, and norms of behavior	8, 9	
<b>GOVERNANCE</b>			
GRI 102-18	Governance structure, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental, and social topics	13, 14	
GRI 102-20	Executive-level responsibility for economic, environmental, and social topics and description of how those aspects are reported directly to the highest governance body	13, 14	
GRI 102-24	Description of nomination and selection processes for the highest governance body and its committees	13	



**STAKEHOLDER ENGAGEMENT**

GRI 102-40	List of stakeholder groups	19	
GRI 102-41	Percentage of total employees covered by collective bargaining agreements	35. <i>100% of employees are covered by collective bargaining agreements.</i>	
GRI 102-42	The basis for identifying and selecting stakeholders with whom to engage	19	
GRI 102-43	The organization's approach to stakeholder engagement	19, 20, 25, 26	
GRI 102-44	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded	19	

**REPORTING PRACTICE**

GRI 102-45	Entities included in the consolidated financial statements	49	
GRI 102-46	Defining report content and topic boundaries	14, 50	
GRI 102-47	List of material topics	14	
GRI 102-48	Restatements of information	N.A.	
GRI 102-49	Changes in reporting	N.A.	
GRI 102-50	Reporting period	49	
GRI 102-51	Date of most recent report	N.A.	
GRI 102-52	Reporting cycle	49	
GRI 102-53	Contact point for questions regarding the report	50	
GRI 102-54	Claims of reporting in accordance with the GRI Standards	49	
GRI 102-55	GRI content index	52	
GRI 102-56	External assurance	58	

**TOPIC-SPECIFIC DISCLOSURE**

<i>GRI standard</i>	<i>Standard description</i>	<i>Page number and notes</i>	<i>Omission</i>
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**GRI 200: ECONOMIC PERFORMANCE****GRI 203: INDIRECT ECONOMIC IMPACTS**

GRI 103-1, 103-2, 103-3	Management Approach	28 – 31, 32	
GRI 203-1	Development and impact of significant infrastructure investments and services supported, mainly for public use	29, 30, 32, 33	

**GRI 204: PROCUREMENT PRACTICES**

GRI 103-1, 103-2, 103-3	Management Approach	44	
GRI 204-1	Proportion of spending on local suppliers	44	

**GRI 205: ANTI-CORRUPTION**

GRI 103-1, 103-2, 103-3	Management Approach	21 – 23	
GRI 205-1	Operations assessed for risks related to corruption	21, 22	
GRI 205-3	Confirmed incidents of corruption and actions taken	21. <i>No incidents of corruption occurred during the year.</i>	

**GRI 206: ANTI-COMPETITIVE BEHAVIOUR**

206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices and outcomes of legal actions	<i>An appeal is pending before the Lazio Regional Administrative Court against ruling no 25565 of the Competition Authority of April 28, 2017, issued following proceeding no. 1794 and notified to Iccrea Banca (together with other banks and the Italian Banking Association) on May 16, 2017.</i>	
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**GRI 300: ENVIRONMENTAL TOPICS**

**GRI 302: ENERGY**

GRI 103-1, 103-2, 103-3	Management Approach	45 – 48	
302-1	Energy consumption within the organization	47	

**GRI 305: EMISSIONS**

GRI 103-1, 103-2, 103-3	Management Approach	45 - 48	
305-1	Direct (Scope 1) GHG emissions	48	
305-2	Energy indirect (Scope 2) GHG emissions	48	

**GRI 400: SOCIAL TOPICS**

**GRI 401: EMPLOYMENT**

GRI 103-1, 103-2, 103-3	Management Approach	35, 40, 41	
GRI 401-1	New employee hires and employee turnover	35	
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	<i>40, 41. Group employees on fixed-term contracts receive the same benefits as those hired on open-ended contracts.</i>	

**GRI 402: LABOUR/MANAGEMENT RELATIONS**

GRI 103-1, 103-2, 103-3	Management Approach	42, 43	
GRI 402-1	Minimum notice periods regarding operational changes	<i>42, 43. Articles 11 bis and 22 of the Federcasse collective bargaining agreement provide for a minimum of two weeks' notice.</i>	

**GRI 403: OCCUPATIONAL HEALTH AND SAFETY**

GRI 103-1, 103-2, 103-3	Management Approach	41, 42	
GRI 403-1	Workers representation in formal joint management-worker health and safety committees	41. 100% of employees are represented on formal joint management-worker health and safety committees	
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	41, 42	Health and safety indicators regard Group employees only. They do not include any external non-Group employees.
GRI 403-4	Health and safety topics covered in formal agreements with trade unions	43	

**GRI 404 – TRAINING AND EDUCATION**

GRI 103-1, 103-2, 103-3	Management Approach	37 - 40	
GRI 404-1	Average hours of training per year per employee	39	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	37 - 40. The Group organizes technical-specialized, mandatory and behavioral training programs together with targeted personal and professional growth activities. To date, the Group has not developed specific transition assistance programs (retirement, termination of employment, retraining) for its employees.	
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	39	

**GRI 405: DIVERSITY AND EQUAL OPPORTUNITY**

GRI 103-1, 103-2, 103-3	Management Approach	35 – 37	
GRI 405-1	Diversity of governance bodies and employees	35, 36	In accordance with Article 10 of Legislative Decree 254/16 amending Legislative Decree 58/98, the Iccrea Banking Group is not required to report on the composition of its administrative, management and control bodies.
GRI 405-2	Ratio of basic salary and remuneration of women to men	37	

**GRI 406: NON-DISCRIMINATION**

GRI 103-1, 103-2, 103-3	Management Approach	35, 36	
GRI 406-1	Incidents of discrimination and corrective actions taken	<i>No incidents of discrimination occurred during the year.</i>	

**GRI 413: LOCAL COMMUNITIES**

GRI 103-1, 103-2, 103-3	Management Approach	32 -- 34	
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	32 – 34	

**GRI 417: MARKETING AND LABELING**

GRI 103-1, 103-2, 103-3	Management Approach	25, 26	
GRI417-1	Types of information is required by the organization's procedures for product and service information and labeling and Percentage of significant product or service categories covered by and assessed for compliance with such procedures	25, 26	
GRI 417-2	Incidents of non-compliance concerning product and service information and labeling	<i>No incidents of non-compliance occurred during the year.</i>	
GRI 417-3	Incidents of non-compliance concerning marketing communications	<i>No incidents of non-compliance occurred during the year.</i>	

**GRI 418: CUSTOMER PRIVACY**

GRI 103-1, 103-2, 103-3	Management Approach	27, 28	
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	28	

**GRI 419: SOCIO-ECONOMIC COMPLIANCE**

GRI 419-1	Non-compliance with laws and regulations in the social and economic area	<i>No incidents of non-compliance occurred during the year.</i>	
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**GRI G4 Supplement for the financial services sector**

**PRODUCT PORTFOLIO**

FS-6	Portfolio for business lines by specific region, customer size and sector	24, 25, 28 - 31	
FS-7	Products and services designed to deliver a specific social benefit	28 - 31	
FS-8	Products and services designed to deliver a specific environmental benefit	31	

**LOCAL COMMUNITIES**

FS-13	Access points in low-populated or economically disadvantaged areas by type	8	
<b>Other material topics</b>			
<b><i>CUSTOMER SATISFACTION AND SERVICE QUALITY</i></b>			
GRI 103-1, 103-2, 103-3	Management Approach	25, 26, 28	
<b><i>RESPONSIBLE LENDING</i></b>			
GRI 103-1, 103-2, 103-3	Management Approach	31, 46, 47	
<b><i>DEVELOPMENT OF FUTURE MARKETS</i></b>			
GRI 103-1, 103-2, 103-3	Management Approach	26, 27	



## Iccrea Banca S.p.A.

Consolidated disclosure of non-Financial Information as at  
December 31, 2017

Independent auditor's report in accordance with article 3, par.  
10, of Legislative Decree n. 254, dated December 30, 2016 and  
with article 5 of Consob Regulation adopted with resolution  
n.20267



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Independent auditor's report on the Consolidated disclosure of non-Financial Information in accordance with article 3, par. 10, of Legislative Decree n. 254, dated December 30, 2016 and with article 5 of Consob Regulation adopted with resolution n.20267  
*(Translation from the original Italian text)*

To the Board of Directors of  
Iccrea Banca S.p.A.

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree n.254, dated December 30, 2016 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267, on the consolidated disclosure of non-financial information of Iccrea Banca S.p.A. and its subsidiaries (hereinafter the "Group" or "Iccrea Banking Group") for the year ended December 31, 2017 in accordance with article 4 of the Decree approved by the Board of Directors on April 6, 2018 (hereinafter "DNF").

#### Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative (the "GRI Standards") mentioned in paragraph "Methodological Note and GRI indicators" of the DNF, identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

#### Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

EY S.p.A.  
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### Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. understanding of the following aspects:
  - o group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
  - o policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
  - o main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5. a) below:

4. Understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.  
In particular, we have conducted interviews and discussions with the management of the Bank and with its personnel of and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.





Furthermore, at group level, for significant information, considering the Group activities and characteristics:

- at Group level,
  - a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  - b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- for some companies (Iccrea Banca S.p.A., Banca Sviluppo S.p.A., Iccrea Bancalmpresa S.p.A. e BCC Sistemi Informatici S.p.A.), selected based on their activity and contribution to the consolidated performance indicators, obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

#### Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that DNF of the Iccrea Banking Group for the year ended December 31, 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards.

#### Other Information

The comparative information presented in the DNF for the year ended December 31, 2016 have not been examined.

Rome, April 24, 2018

EY S.p.A.

Signed by: Wassim Abou Said, partner

*This report has been translated into the English language solely for the convenience of international readers.*