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## Iccrea Banca SpA

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Major Rating Factors

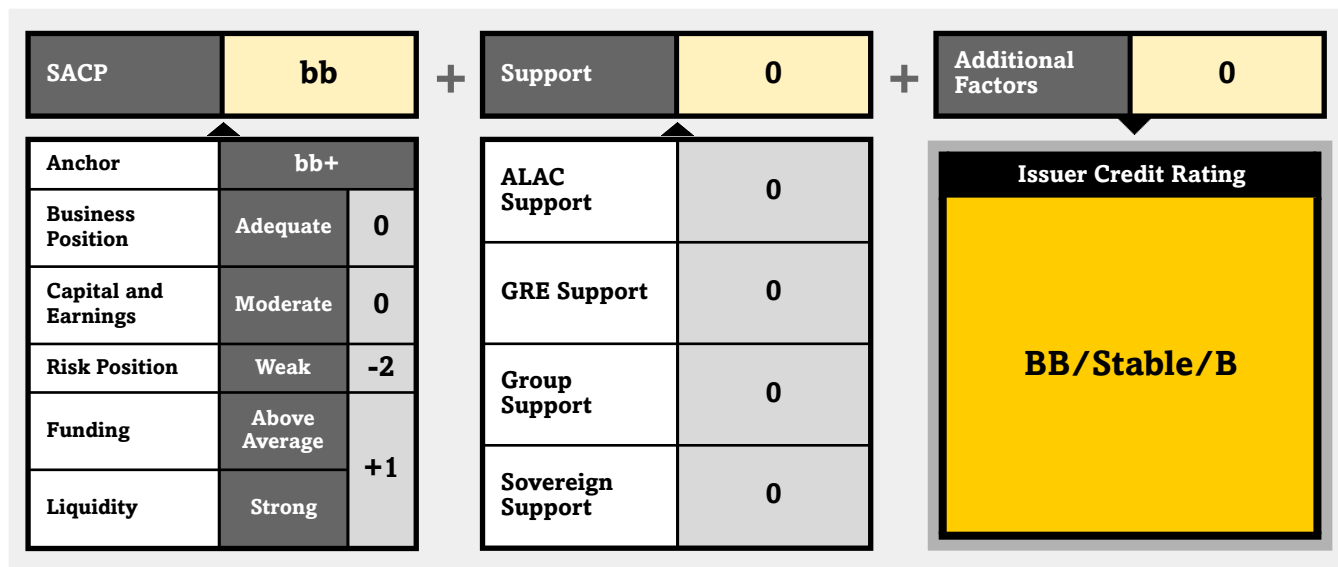
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# Iccrea Banca SpA

**(Editor's Note:** In the diagram below, stand-alone-credit profile (SACP) describes the unsupported group credit profile (GCP) of the Banche di Credito Cooperativo (BCC) system. The issuer credit rating applies to Iccrea Banca SpA and its subsidiary Iccrea Banca Impresa SpA, whose ratings are equalized to the GCP of the BCC network.)



## Major Rating Factors

| Strengths:                                                                                                                                                                                                                                              | Weaknesses:                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Large and stable deposit base of Italy's Banche di Credito Cooperativo (large network of small cooperative banks - the BCC network).</li> <li>• Core status of Iccrea Banca within the BCC network.</li> </ul> | <ul style="list-style-type: none"> <li>• BCC network's low profitability.</li> <li>• BCC network's weaker-than-average asset quality metrics.</li> <li>• Relatively unsophisticated risk culture at BCC level.</li> </ul> |

**Outlook: Stable**

The stable outlook on Iccrea Banca SpA reflects our view that the BCC network should be able to maintain high liquidity levels, limited reliance on wholesale funding, and a solid market position in the next 12 months. We also consider that the group will remain cohesive and committed to supporting Iccrea Banca.

Moreover, we expect that--on the back of the recently approved cooperative banking sector reform--no meaningful division of the BCC system will materialize and undermine the group's creditworthiness.

An upgrade could follow an improvement in Italy's economic and operating environment in conjunction with a strengthening of the BCC network's financial profile. This could happen if we anticipated that the risk-adjusted capital (RAC) ratio will increase comfortably above 7%. In addition, as a result of the sector reform, we would also need to observe a significant tightening of the relationship between individual banks, with an effective joint-several guarantee among members; higher cost and revenue synergies; and a leaner group structure and improved corporate governance, enabling the bank to reap the benefit of operating as a single group in the market.

We could lower the ratings on Iccrea Banca if, against our current expectations, the BCC network's capitalization were to decline over the next 12 months to push its RAC ratio below 5.0% or if its strong liquidity position deteriorated to a level more akin to domestic peers'.

**Rationale**

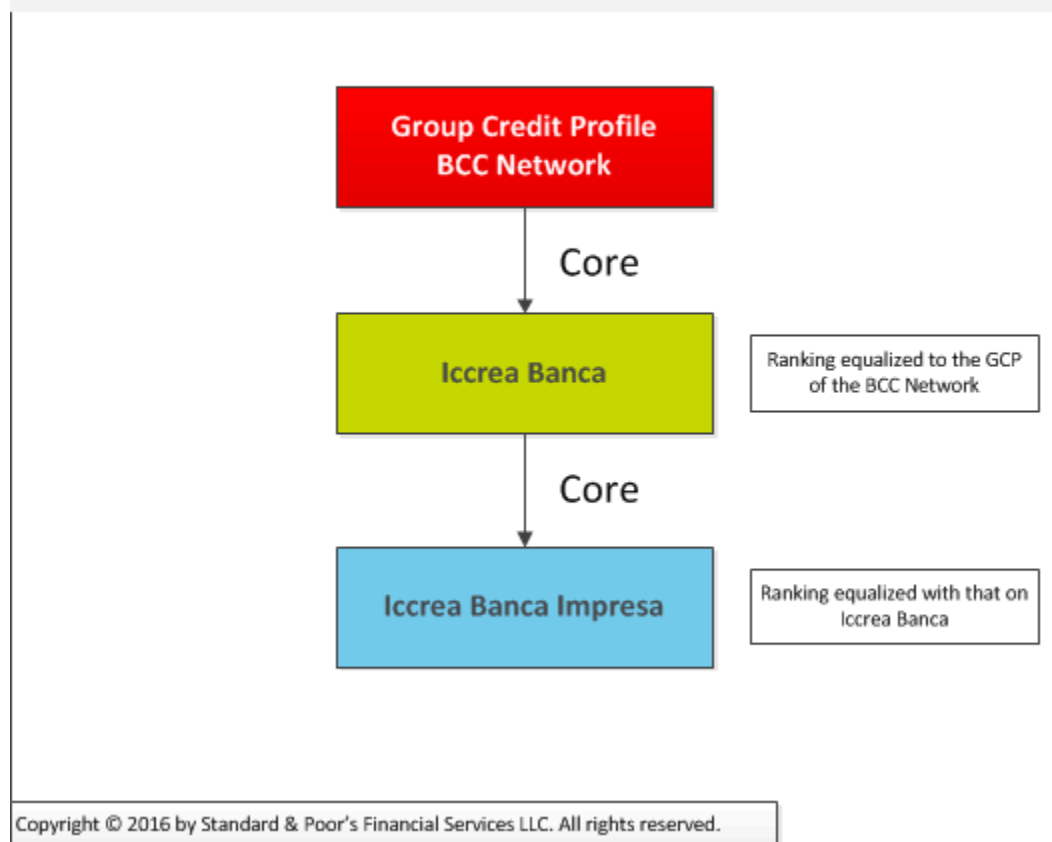
The ratings on Iccrea Banca primarily reflect our view of its core status to the BCC network. Iccrea Banca is the parent company of the Iccrea Banking Group and provides key financial and credit services for the BCC network. Therefore, we base the ratings on Iccrea Banking Group on the creditworthiness of the BCC network.

Iccrea Banca coordinates the activity of the subsidiary Iccrea Banca Impresa. We consider this subsidiary to be a core entity of Iccrea Banca. Despite not being a single legal entity, the BCC network is a cohesive group, in our opinion, thanks to the solidarity mechanism it has in place. This mechanism, although not legally binding, lowers the probability of individual BCC member banks entering into liquidation.

Our rating approach is to first assign the BCC network a group credit profile (GCP), which is our opinion of a group's creditworthiness as if the group was a single legal entity. A GCP is conceptually equivalent to an issuer credit rating. We then use the GCP to determine the rating on Iccrea Banca and, in turn, Iccrea Banca Impresa.

The BCC network's GCP benefits from our view of the network's business stability and strong retail customer base in Italy. It also reflects its strong retail funding base and limited exposure to short-term wholesale funding. At the same time, modest capitalization and weak asset quality constrain the network's GCP. We estimate that the BCC network's RAC ratio will remain at about 6.4%, the level reported at end-December 2015. Our asset quality assessment reflects the network's higher concentration in the real estate sector and a coverage ratio for problem assets--at 42% as of June 2016--below its Italian peers.

## Group Structure And Rating Approach



## BCC Network - Key Figures

|                        | --Year-ended Dec. 31-- |         |         |         |         |
|------------------------|------------------------|---------|---------|---------|---------|
|                        | 2015                   | 2014    | 2013    | 2012    | 2011    |
| Adjusted assets        | 221,031                | 222,214 | 206,230 | 201,444 | 181,204 |
| Customer loans (gross) | 133,104                | 131,236 | 129,139 | 134,268 | 134,589 |
| Adjusted common equity | 19,283                 | 19,291  | 18,302  | 18,651  | 18,278  |
| Operating revenues     | 7,197                  | 7,552   | 6,564   | 6,513   | 5,606   |
| Noninterest expenses   | 4,397                  | 4,162   | 4,017   | 4,030   | 3,982   |
| Core earnings          | N/A                    | 412     | 59      | 458     | 314     |

N/A--Not available.

## Iccrea Banca SpA - Key Figures

|                        | --Year-ended Dec. 31-- |        |        |        |        |
|------------------------|------------------------|--------|--------|--------|--------|
|                        | June 2016              | 2015   | 2014   | 2013   | 2012   |
| Adjusted assets        | 50,260                 | 48,660 | 49,620 | 46,178 | 40,016 |
| Customer loans (gross) | 13,445                 | 12,966 | 11,771 | 11,738 | 11,685 |
| Adjusted common equity | 1,577                  | 1,553  | 1,535  | 1,440  | 1,343  |
| Operating revenues     | 359                    | 727    | 669    | 587    | 564    |

**Iccrea Banca SpA - Key Figures (cont.)**

|                      | June 2016 | --Year-ended Dec. 31-- |      |      |      |
|----------------------|-----------|------------------------|------|------|------|
|                      |           | 2015                   | 2014 | 2013 | 2012 |
| Noninterest expenses | 232       | 512                    | 379  | 314  | 287  |
| Core earnings        | 24        | N.M.                   | 64   | 43   | 50   |

N.M.--Not meaningful.

**Anchor:'bb+' for a bank operating in Italy**

Our bank criteria use our Banking Industry Country Risk Analysis (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for a bank operating in Italy is 'bb+'. Italian banks face high economic risks compared with global peers, in our view, though these risks appear to have stabilized in 2015 and will progressively reduce through 2016 and 2017.

This mainly reflects what we view as Italy's slow recovery from a long and deep economic recession, which eroded the private sector's financial position and creditworthiness. Economic growth remains constrained, in our opinion, by some structural rigidities, the diminished competitiveness of domestic small and midsize enterprises, and high government debt. The banking sector has consequently accumulated a high stock of nonperforming assets (NPAs) in the past few years and we anticipate that working out this portfolio will take significant time. We therefore believe that credit losses will decline in the coming quarters, but are unlikely to return to what we view as the Italian banking sector norm in the next two-to-three years.

We also see medium industry risk for the Italian banking sector. It still lacks the efficiency and earnings-generation capacity of other financial systems, mainly due to high fragmentation. These structural constraints, combined with other cyclical factors, are likely to maintain Italian banks' profitability at relatively modest levels. Moreover, the banks' cost of financing is still higher than in other European Economic and Monetary Union (eurozone) banking sectors, although their capacity to affordably access unsecured wholesale funding is improving due to better credit conditions and ample liquidity in the market. Italy's traditional focus on retail and commercial lending and our view that its regulatory standards are aligned to international best practices remain supportive factors for the Italian banking system.

**Business position: Stable domestic retail customer base balanced by the group's still limited cohesiveness and governance standards**

The BCC network benefits from a well-established franchise in Italy. As of June 2016, the BCC network consisted of 355 rural cooperative banks spread throughout Italy, with 4,385 branches (about 15% of total Italian banking system) and about 30,800 employees. The local cooperative banks are legally independent and deeply rooted in their own territories. The network enjoys a stable franchise, thanks to its large customer base of domestic small and midsize enterprises (SMEs) and households. The BCC network's aggregated national market share was about 8% in terms of customer loans as of end-2015, a level similar to that of large Italian banks. The Iccrea Banking Group entities act as the BCC's network central bank and its specialized product providers, allowing the network to offer a complete range of financial services. Specifically, the BCC's network holds about an 11% market share in corporate lending, mostly SMEs.

Over the last three years the BCC network reported 10% revenue growth, essentially driven by trading profits--mostly on Italian government bonds--that reached up to 25% of total revenues. Excluding this, the contribution of other sources of revenues remained broadly stable.

We consider BCC network's management as generally less sophisticated than that of other large domestic banks. This reflects a typically more aggressive risk appetite, demonstrated by the system's higher inflow of NPAs than the system average. Also, governance standards compare unfavorably with the industry average, in our opinion. Governance structure at the level of individual BCC banks is typically characterized by a concentrated decision-making process that lacks the breadth of controls and the balance of powers of the majority of the other Italian financial institutions.

In our view, the above-mentioned weaknesses counterbalance the benefits of the BCC network's stable customer base and operations, therefore we consider its business position as adequate.

Following the cooperative banking sector reform finalized in November this year, the BCC system will undergo a material restructuring process. However, since the actual implementation is still at an initial phase, we have not factored any potential impact into our ratings. The reform provides for the formation of a holding entity as a joint-stock company, with at least €1 billion of capital, majority-owned by participating BCC members. The holding company would assume the strategic direction of the participating BCC members and coordinate their operating activities. Although individual BCC members would remain independent in their recurring operations, the holding company is expected to control and influence their strategies. Furthermore, under the new holding group, each BCC member would participate in a cross-guarantee scheme designed to share risks within the group. We expect to see the first banking group created under the new framework to be operational in the next 12-18 months. Although it is still unclear the number of BCC members that will join forces around Iccrea and how the regulatory guidelines will be deployed in the new group's by-law, we view the decree as a positive step toward establishing a more cohesive and resilient BCC system. In particular, we will monitor the effectiveness of the joint and several guarantees and overall risk sharing among group's participants; the financial strength of the new group; the breadth of governance controls; and the ability of the holding entity to coordinate BCC members' operations and implement group strategy.

### BCC Network - Business Position

|                                                          | --Year-ended Dec. 31-- |       |       |       |       |
|----------------------------------------------------------|------------------------|-------|-------|-------|-------|
|                                                          | 2015                   | 2014  | 2013  | 2012  | 2011  |
| Loan market share in country of domicile                 | 7.20                   | 7.30  | 7.20  | 7.10  | 7.00  |
| Total revenues from business line (currency in millions) | 7,199                  | 7,552 | 6,565 | 6,521 | 5,613 |
| Return on equity                                         | (0.47)                 | 1.87  | 0.01  | 2.33  | 1.68  |

### Iccrea Banca SpA - Business Position

|                                                          | --Year-end Dec. 31-- |      |      |      |      |
|----------------------------------------------------------|----------------------|------|------|------|------|
|                                                          | June 2016            | 2015 | 2014 | 2013 | 2012 |
| Total revenues from business line (currency in millions) | 402                  | 841  | 669  | 589  | 565  |
| Return on equity                                         | 5.71                 | 2.53 | 3.01 | 2.33 | 3.16 |

## Capital and earnings: Modest capitalization and subdued profitability level

The BCC network's capitalization levels mainly reflect the system's exposure to high economic risk in Italy, in particular to the SME sector. We expect the BCC network to substantially maintain current capital levels over the next 12-24 months, with an aggregate RAC ratio at about 6.4% by end-2018.

Our forecast factors in our view that BCC network's credit losses will likely be higher than the system average (140 basis points on average in 2016 and 2017) and should absorb a large part of the BCC network's profitability. We anticipate only moderate earnings improvement from the second half of 2017.

The network's operating profitability will likely be constrained by the impact of subdued volumes (loan book should decline by 1.5% in the next two years), persistently low interest rates, and more limited product diversification compared to large Italian peers. Moreover, the contribution of the €75 billion securities portfolio is expected to decline materially compared to previous years. We expect the cost base to increase by 1% over our outlook horizon and cost efficiency to remain a weakness. The cost to income ratio should reach 74% in 2016 from 61% as of Dec. 31, 2015, and remain at this level in 2017. The limited integration of the single BCCs, each of which is an independent institution, prevents material improvements of the cost efficiency, in our view.

Our RAC ratio differs substantially from BCC's common equity tier I ratio that was 16.2% on aggregate as of June 2016, compared to about 12% for the rest of the domestic sector. This is primarily because the risk weightings we assign to asset classes in Italy--especially those to corporates--are higher than the regulator's weightings. At the same time, we have calculated our RAC ratio on the basis of aggregate balance sheet statistics for the BCC network, since a consolidated version and Pillar 3 report do not exist. As a result, we make some assumptions in our calculation:

- We consider 10% of the corporate loan book to be highly volatile commercial real estate assets, reflecting the BCCs' higher concentration on the real estate sector compared with their peers; and
- Our application of a credit conversion factor of 50% to the BCC network's off-balance-sheet exposures

In our assessment of the quality of BCC's capital, we consider that capital exchangeability within the BCC network is still limited because each BCC is an independent legal entity subject to regulatory capital requirements (although the ongoing cooperative sector reform is aiming to address this issue). At the same time, we also balance this with the fact that the cooperative structure inherently supports high earnings retention. The amount of hybrid instruments is negligible and deferred tax assets are limited when compared to the rest of the sector, 16% of total adjusted capital.

### BCC Network - Capital And Earnings

|                                            | --Year-ended Dec. 31-- |       |       |       |       |
|--------------------------------------------|------------------------|-------|-------|-------|-------|
|                                            | 2015                   | 2014  | 2013  | 2012  | 2011  |
| S&P RAC ratio before diversification       | 6.41                   | 6.36  | 7.73  | 9.06  | 13.46 |
| S&P RAC ratio after diversification        | 6.49                   | 6.49  | 8.00  | 9.39  | 13.20 |
| Net interest income/operating revenues     | 49.99                  | 50.15 | 57.82 | 64.58 | 71.42 |
| Fee income/operating revenues              | 18.88                  | 16.81 | 18.35 | 18.70 | 21.76 |
| Market-sensitive income/operating revenues | 23.13                  | 25.31 | 15.84 | 10.32 | 0.23  |
| Noninterest expenses/operating revenues    | 61.10                  | 55.11 | 61.21 | 61.87 | 71.03 |
| Provision operating income/average assets  | 1.26                   | 1.58  | 1.25  | 1.30  | 0.92  |

**BCC Network - Capital And Earnings (cont.)**

|                                      | --Year-ended Dec. 31-- |      |      |      |      |
|--------------------------------------|------------------------|------|------|------|------|
|                                      | 2015                   | 2014 | 2013 | 2012 | 2011 |
| Core earnings/average managed assets | N/A                    | 0.19 | 0.03 | 0.24 | 0.18 |

RAC--Risk-adjusted capital. N/A--Not available. N.M.--Not meaningful.

**Iccrea Banca SpA - Capital And Earnings**

|                                              | --Year-ended Dec. 31-- |       |       |       |       |
|----------------------------------------------|------------------------|-------|-------|-------|-------|
|                                              | June 2016              | 2015  | 2014  | 2013  | 2012  |
| Tier 1 capital ratio                         | 12.35                  | 12.36 | 11.45 | 10.10 | 9.27  |
| S&P RAC ratio before diversification         | N.M.                   | 4.46  | 3.96  | 4.70  | 5.35  |
| S&P RAC ratio after diversification          | N.M.                   | 4.33  | 3.84  | 4.52  | 5.35  |
| Net interest income/operating revenues       | 54.04                  | 57.45 | 61.24 | 65.22 | 65.39 |
| Fee income/operating revenues                | 25.34                  | 25.95 | 25.07 | 28.03 | 27.40 |
| Market-sensitive income/operating revenues   | 6.90                   | 3.42  | 0.56  | 3.15  | 1.82  |
| Noninterest expenses/operating revenues      | 64.66                  | 70.46 | 56.73 | 53.50 | 50.94 |
| Preprovision operating income/average assets | 0.51                   | 0.44  | 0.60  | 0.63  | 0.84  |
| Core earnings/average managed assets         | 0.10                   | N.M.  | 0.13  | 0.10  | 0.15  |

RAC--Risk-adjusted capital. N.M.--Not meaningful.

**BCC Network (BankIt) RACF [Risk-Adjusted Capital Framework] Data**

(Mil. €)

|                              | Exposure* | Basel II<br>RWA | Average Basel<br>II RW (%) | S&P Global<br>Ratings RWA | Average S&P<br>Global Ratings<br>RW (%) |
|------------------------------|-----------|-----------------|----------------------------|---------------------------|-----------------------------------------|
| <b>Credit risk</b>           |           |                 |                            |                           |                                         |
| Government and central banks | 70,157    | 0               | 0                          | 32,775                    | 47                                      |
| Institutions                 | 18,509    | 0               | 0                          | 12,120                    | 65                                      |
| Corporate                    | 86,489    | 0               | 0                          | 147,525                   | 171                                     |
| Retail                       | 40,076    | 0               | 0                          | 30,606                    | 76                                      |
| Of which mortgage            | 33,732    | 0               | 0                          | 21,589                    | 64                                      |
| Securitization§              | 0         | 0               | 0                          | 0                         | 0                                       |
| Other assets                 | 20,899    | 0               | 0                          | 44,480                    | 213                                     |
| Total credit risk            | 236,130   | 0               | 0                          | 267,507                   | 113                                     |
| <b>Market risk</b>           |           |                 |                            |                           |                                         |
| Equity in the banking book†  | 2,736     | 0               | 0                          | 19,088                    | 698                                     |
| Trading book market risk     | --        | 0               | --                         | 0                         | --                                      |
| Total market risk            | --        | 0               | --                         | 19,088                    | --                                      |
| <b>Insurance risk</b>        |           |                 |                            |                           |                                         |
| Total insurance risk         | --        | --              | --                         | 0                         | --                                      |
| <b>Operational risk</b>      |           |                 |                            |                           |                                         |
| Total operational risk       | --        | 0               | --                         | 14,160                    | --                                      |



**BCC Network (BankIt) RACF [Risk-Adjusted Capital Framework] Data (cont.)**

| (Mil. €)                                        | Basel II<br>RWA   | S&P Global<br>Ratings RWA | % of S&P Global<br>Ratings RWA |                                        |
|-------------------------------------------------|-------------------|---------------------------|--------------------------------|----------------------------------------|
| <b>Diversification adjustments</b>              |                   |                           |                                |                                        |
| RWA before diversification                      | 0                 | 300,755                   | 100                            |                                        |
| Total Diversification/Concentration Adjustments | --                | (3,705)                   | (1)                            |                                        |
| RWA after diversification                       | 0                 | 297,049                   | 99                             |                                        |
| (Mil. €)                                        | Tier 1<br>capital | Tier 1 ratio<br>(%)       | Total adjusted<br>capital      | S&P Global<br>Ratings RAC<br>ratio (%) |
| <b>Capital ratio</b>                            |                   |                           |                                |                                        |
| Capital ratio before adjustments                | 0                 | 0.0                       | 19,283                         | 6.4                                    |
| Capital ratio after adjustments†                | 0                 | 0.0                       | 19,283                         | 6.5                                    |

\*Exposure at default. §Securitization exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2015, S&P Global Ratings.

**Iccrea Banca SpA RACF [Risk-Adjusted Capital Framework] Data**

| (Mil. €)                                        | Exposure*       | Basel II<br>RWA           | Average Basel<br>II RW (%)     | S&P Global<br>Ratings RWA | Average S&P Global<br>Ratings RW (%) |
|-------------------------------------------------|-----------------|---------------------------|--------------------------------|---------------------------|--------------------------------------|
| <b>Credit risk</b>                              |                 |                           |                                |                           |                                      |
| Government and central banks                    | 13,737          | 320                       | 2                              | 6,415                     | 47                                   |
| Institutions                                    | 5,835           | 893                       | 15                             | 3,825                     | 66                                   |
| Corporate                                       | 6,081           | 4,890                     | 80                             | 9,509                     | 156                                  |
| Retail                                          | 5,172           | 2,687                     | 52                             | 6,121                     | 118                                  |
| Of which mortgage                               | 1,574           | 641                       | 41                             | 1,007                     | 64                                   |
| Securitization§                                 | 1               | 4                         | 424                            | 12                        | 1,250                                |
| Other assets                                    | 2,665           | 1,921                     | 72                             | 5,460                     | 205                                  |
| Total credit risk                               | 33,491          | 10,714                    | 32                             | 31,341                    | 94                                   |
| <b>Market risk</b>                              |                 |                           |                                |                           |                                      |
| Equity in the banking book†                     | 116             | 838                       | 723                            | 893                       | 770                                  |
| Trading book market risk                        | --              | 170                       | --                             | 255                       | --                                   |
| Total market risk                               | --              | 1,008                     | --                             | 1,148                     | --                                   |
| <b>Insurance risk</b>                           |                 |                           |                                |                           |                                      |
| Total insurance risk                            | --              | --                        | --                             | 1,009                     | --                                   |
| <b>Operational risk</b>                         |                 |                           |                                |                           |                                      |
| Total operational risk                          | --              | 1,116                     | --                             | 1,363                     | --                                   |
| (Mil. €)                                        | Basel II<br>RWA | S&P Global<br>Ratings RWA | % of S&P Global<br>Ratings RWA |                           |                                      |
| <b>Diversification adjustments</b>              |                 |                           |                                |                           |                                      |
| RWA before diversification                      | 12,838          | 34,861                    | 100                            |                           |                                      |
| Total Diversification/Concentration Adjustments | --              | 985                       | 3                              |                           |                                      |

**Iccrea Banca SpA RACF [Risk-Adjusted Capital Framework] Data (cont.)**

|                                  |        |                       |                         |                                             |
|----------------------------------|--------|-----------------------|-------------------------|---------------------------------------------|
| RWA after diversification        | 12,838 |                       | 35,846                  | 103                                         |
| (Mil. €)                         |        | <b>Tier 1 capital</b> | <b>Tier 1 ratio (%)</b> | <b>Total adjusted capital</b>               |
|                                  |        |                       |                         | <b>S&amp;P Global Ratings RAC ratio (%)</b> |
| <b>Capital ratio</b>             |        |                       |                         |                                             |
| Capital ratio before adjustments | 1,587  | 12.4                  | 1,553                   | 4.5                                         |
| Capital ratio after adjustments† | 1,587  | 12.4                  | 1,553                   | 4.3                                         |

\*Exposure at default. §Securitization exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2015, S&P Global Ratings.

**Risk position: Higher concentration than peers' in the real estate sector and lower coverage of problem assets**

Our assessment of BCC's weak risk position reflects our belief that the risk embedded in the bank's loan book is higher than that of its domestic peers', as reflected by the high stock of nonperforming loans (NPLs) accumulated during the downturn. Although the BCC network, in line with the sector, is experiencing a material slowdown of NPL inflow and a decline in average probability of default of its loan portfolio, the NPL's stock will decline only gradually from current levels and it will take time to close the gap with better rated domestic peers, in our view.

The BCC system's stock of problem assets represented a high 20% of gross loans as of end-June 2016 compared to about 19% for the whole domestic sector. This is paired with a lower than peers' coverage through provisions, at about 42% as of June 2016 versus 46.4% for the sector. We acknowledge the extensive use of tangible collateral by the BCC network banks and the progress made since 2012 when coverage was a low 26.3%. We nonetheless think that lower reserve coverage of problem assets still exposes the banks to the risk of higher-than-expected credit losses.

In our opinion, the worse-than-sector asset quality performance is explained by the BCC network's higher-than-system average concentration in the corporate sector (mostly SMEs and family run businesses) that accounts for about two thirds of the loan book compared with less than 50% for the domestic sector. More specifically, the construction and real estate sector represents about 35% of total corporate loan exposures as of June 2016 compared to less than 30% for the sector. The BCC network's customer loans grew by 26% before and during the beginning of the crisis (2007-2011), while the banking system average grew by 17%.

Additionally, we consider that the risk culture and the tools to measure and monitor risks are often unsophisticated at the level of individual BCC banks and in the context of still relatively high credit risk in the Italian market.

**BCC Network - Risk Position**

|                                                                     | --Year-ended Dec. 31-- |        |        |        |       |
|---------------------------------------------------------------------|------------------------|--------|--------|--------|-------|
|                                                                     | 2015                   | 2014   | 2013   | 2012   | 2011  |
| Growth in customer loans                                            | 1.42                   | 1.62   | (3.82) | (0.24) | 2.76  |
| Total diversification adjustment / S&P RWA before diversification   | (1.23)                 | (1.95) | (3.30) | (3.48) | 2.01  |
| Total managed assets/adjusted common equity (x)                     | 11.47                  | 11.52  | 11.27  | 10.80  | 9.92  |
| New loan loss provisions/average customer loans                     | 2.12                   | 2.19   | 1.89   | 1.37   | 0.81  |
| Gross nonperforming assets/customer loans + other real estate owned | 19.46                  | 17.97  | 16.46  | 13.88  | 10.84 |

**BCC Network - Risk Position (cont.)**

|                                               | --Year-ended Dec. 31-- |       |       |       |       |
|-----------------------------------------------|------------------------|-------|-------|-------|-------|
|                                               | 2015                   | 2014  | 2013  | 2012  | 2011  |
| Loan loss reserves/gross nonperforming assets | 42.87                  | 38.96 | 33.53 | 26.29 | 25.34 |
| RWA--Risk-weighted assets.                    |                        |       |       |       |       |

**Iccrea Banca SpA - Risk Position**

|                                                                     | --Year-ended Dec. 31-- |       |       |       |       |
|---------------------------------------------------------------------|------------------------|-------|-------|-------|-------|
|                                                                     | June 2016              | 2015  | 2014  | 2013  | 2012  |
| Growth in customer loans                                            | 7.40                   | 10.15 | 0.28  | 0.45  | 3.40  |
| Total diversification adjustment / S&P RWA before diversification   | N.M.                   | 2.83  | 3.00  | 1.90  | -0.20 |
| Total managed assets/adjusted common equity (x)                     | 31.90                  | 31.35 | 32.36 | 32.08 | 29.81 |
| New loan loss provisions/average customer loans                     | 1.46                   | 2.31  | 1.65  | 1.58  | 1.56  |
| Net charge-offs/average customer loans                              | N.M.                   | 0.29  | 0.43  | 0.62  | 0.43  |
| Gross nonperforming assets/customer loans + other real estate owned | 19.38                  | 18.41 | 17.81 | 18.36 | 15.61 |
| Loan loss reserves/gross nonperforming assets                       | 48.03                  | 45.58 | 38.94 | 37.87 | 37.50 |
| RWA--Risk-weighted assets. N.M.--Not meaningful.                    |                        |       |       |       |       |

**Funding and liquidity: Large customer deposit base and comfortable liquidity position**

The BCC network funding structure is largely retail driven and has historically benefitted from strong local market shares and a loyal customer base, which in turn translates into strong access to customers' resources. As a consequence, customer funding (including deposits and bonds placed to retail customers) represented over 80% of the total funding base as of end-June 2016. We also note that the ratio of loans to customers and core deposits was 75% as of end-December 2015, meaningfully lower than that of other Italian banks, and further improving from 2011 thanks to both the BCC network's deleveraging and customers' fund gathering efforts (core deposits have increased by 11% while the loan book shrank by 7%).

Wholesale funding represents a modest 18% of the BCC network's funding base and is represented almost entirely by interbank exposures with Iccrea Banca which manages wholesale funding for the whole BCC network. Therefore, we assess the BCC network's funding as above average.

The BCC network's exposure to short-term wholesale funding, including European Central Bank (ECB) financing, is lower than other Italian banks and is channeled through Iccrea Banca. Iccrea Banca raises funding in the market to lend on to the BCCs in the form of interbank loans. In our opinion, the refinancing risk associated with this funding source is limited, because Iccrea Banca accesses the market through a diversified array of technical forms over the short, medium, and long term.

We calculate a ratio of broad liquid assets on short-term wholesale funding of 2.5x as of December 2015, higher than 2.2x in December 2014. The short-term financing sources are mainly formed of repurchase agreements with Cassa di Compensazione and Garanzia. In turn, these are largely used to fund the government bond portfolio, amounting to about €75 billion as of June 2016. Sizable sources of liquidity cover the network's overall exposure to wholesale short-term funding by more than 2x. As a result, we assess the BCC network's liquidity as strong.

**BCC Network - Funding And Liquidity**

|                                                      | --Year-ended Dec. 31-- |        |        |        |        |
|------------------------------------------------------|------------------------|--------|--------|--------|--------|
|                                                      | 2015                   | 2014   | 2013   | 2012   | 2011   |
| Core deposits/funding base                           | 82.67                  | 79.92  | 83.47  | 84.34  | 90.48  |
| Customer loans (net)/customer deposits               | 75.44                  | 77.75  | 80.18  | 86.48  | 89.91  |
| Long term funding ratio                              | 84.29                  | 82.29  | 85.03  | 85.86  | 91.41  |
| Stable funding ratio                                 | 134.69                 | 131.77 | 117.49 | 112.94 | 111.30 |
| Short-term wholesale funding/funding base            | 17.33                  | 19.57  | 16.53  | 15.66  | 9.52   |
| Broad liquid assets/short-term wholesale funding (x) | 2.55                   | 2.26   | 2.02   | 1.88   | 2.31   |
| Net broad liquid assets/short-term customer deposits | 40.50                  | 38.62  | 25.27  | 20.53  | 17.18  |
| Short-term wholesale funding/total wholesale funding | 100.00                 | 97.46  | 100.00 | 100.00 | 100.00 |

**Iccrea Banca SpA - Funding And Liquidity**

|                                                      | --Year-ended Dec. 31-- |          |          |         |         |
|------------------------------------------------------|------------------------|----------|----------|---------|---------|
|                                                      | June 2016              | 2015     | 2014     | 2013    | 2012    |
| Core deposits/funding base                           | 12.00                  | 10.92    | 10.43    | 10.15   | 12.11   |
| Customer loans (net)/customer deposits               | 214.48                 | 236.44   | 224.43   | 246.71  | 243.90  |
| Long term funding ratio                              | 18.53                  | 17.64    | 17.43    | 20.69   | 23.22   |
| Stable funding ratio                                 | 40.87                  | 40.07    | 51.17    | 69.97   | 69.92   |
| Short-term wholesale funding/funding base            | 84.37                  | 85.36    | 85.49    | 82.15   | 79.76   |
| Broad liquid assets/short-term wholesale funding (x) | 0.69                   | 0.70     | 0.82     | 0.90    | 0.89    |
| Net broad liquid assets/short-term customer deposits | (271.14)               | (296.32) | (188.39) | (97.09) | (90.20) |
| Short-term wholesale funding/total wholesale funding | 95.87                  | 95.83    | 95.44    | 91.42   | 90.74   |
| Narrow liquid assets/3-month wholesale funding (x)   | 0.85                   | 0.89     | 2.06     | 0.98    | 1.76    |

**External support: No notches of uplift incorporated in the BCC network's GCP**

We do not incorporate any notches of uplift for potential extraordinary government support into our ratings.

That is because we now believe that the prospects of extraordinary government support for the Italian banking sector are uncertain, following the full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We also do not add any support for additional loss-absorbing capacity.

Until the reform is finalized, we expect the regulators to apply the recovery and resolution framework at Iccrea Banca's level. Regarding the individual cooperative banks, it is unlikely that they would be subject to a well-defined bail-in resolution process, given their small size, limited complexity, and low systemic importance on a stand-alone basis. We expect them to continue receiving support through the BCC network and the use of the dedicated funds.

**Core subsidiaries: We equalize the 'BB' long-term counterparty credit rating on Iccrea Banca with the BCC network's GCP**

The ratings on Iccrea Banca benefit from the stability of its role as the central bank for the BCC network, which sees it providing a complete range of financial services to the members of the BCC network (e.g. leasing, factoring, credit cards, payments, capital market brokerage).

Iccrea Banca's weak level of capitalization reflects the institution's low internal capital generation capacity as well as

the current difficult economic environment in Italy, in our view. Iccrea Banca's RAC ratio as of December 2015 was 4.5%, and we project that it will improve only marginally, remaining below 5% in the next two years on the back of some balance sheet deleveraging.

We think that our assessment of Iccrea Banca's capital and earnings adequately captures the bank's specific risks and its limited exposure to credit risk. Iccrea Banca is highly exposed to interbank lending to the BCC network, an activity characterized by low credit risk. Its exposure to credit risk mainly stems from its corporate banking business, which is relatively small, evident from the fact that corporate loans only represent 15% of its total assets as of end-June 2016. That said, the total NPL ratio was 21.5% as of September 2016, while the coverage ratio improved to 44% from 39% as of June 2015. Leasing represents about 47% of Iccrea loans and a similar proportion of nonperforming lending, mostly due to real estate leasing.

Given its nature, Iccrea is inherently more reliant on wholesale funding than the BCC network. At the same time, however, it benefits from strong ongoing funding support from the BCCs. The BCC network's liquidity is mainly channeled through Iccrea Banca, in the form of ECB funding, repo, and management of system payments.

We consider Iccrea Banca as core to the BCC network due to its central role within the BCC system and track record of strong commitment. Therefore, we equalize the ratings of Iccrea Banca with the 'bb' GCP on the BCC network.

The 'BB' long-term counterparty credit rating on Iccrea Banca Impresa is in line with the rating on Iccrea Banca because we consider this institution as core to the former. Iccrea Banca Impresa provides the BCC network mainly with leasing, factoring, export services, and advisory activities.

We notch the ratings on hybrid capital instruments issued by Iccrea Banking Group entities down from the stand-alone credit profile. This reflects our view that the BCC network support that we incorporate into the ratings on the Iccrea Banking Group's entities would not necessarily extend to the hybrid capital instruments issued by the Iccrea Banking Group.

## Related Criteria And Research

### Related Criteria

- General Criteria: Guarantee Criteria - October 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011

- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

| Anchor Matrix |               |      |      |      |      |      |      |     |     |    |
|---------------|---------------|------|------|------|------|------|------|-----|-----|----|
| Industry Risk | Economic Risk |      |      |      |      |      |      |     |     |    |
|               | 1             | 2    | 3    | 4    | 5    | 6    | 7    | 8   | 9   | 10 |
| 1             | a             | a    | a-   | bbb+ | bbb+ | bbb  | -    | -   | -   | -  |
| 2             | a             | a-   | a-   | bbb+ | bbb  | bbb  | bbb- | -   | -   | -  |
| 3             | a-            | a-   | bbb+ | bbb+ | bbb  | bbb- | bbb- | bb+ | -   | -  |
| 4             | bbb+          | bbb+ | bbb+ | bbb  | bbb  | bbb- | bb+  | bb  | bb  | -  |
| 5             | bbb+          | bbb  | bbb  | bbb  | bbb- | bbb- | bb+  | bb  | bb- | b+ |
| 6             | bbb           | bbb  | bbb- | bbb- | bbb- | bb+  | bb   | bb  | bb- | b+ |
| 7             | -             | bbb- | bbb- | bb+  | bb+  | bb   | bb   | bb- | b+  | b+ |
| 8             | -             | -    | bb+  | bb   | bb   | bb   | bb-  | bb- | b+  | b  |
| 9             | -             | -    | -    | bb   | bb-  | bb-  | b+   | b+  | b+  | b  |
| 10            | -             | -    | -    | -    | b+   | b+   | b+   | b   | b   | b- |

### Ratings Detail (As Of December 16, 2016)

#### Iccrea Banca SpA

|                            |             |
|----------------------------|-------------|
| Counterparty Credit Rating | BB/Stable/B |
| Senior Unsecured           | BB          |
| Short-Term Debt            | B           |
| Subordinated               | B           |

#### Counterparty Credit Ratings History

|             |                    |
|-------------|--------------------|
| 18-Dec-2014 | BB/Stable/B        |
| 24-Jul-2013 | BB+/Negative/B     |
| 12-Jul-2013 | BBB-/Watch Neg/A-3 |
| 03-Aug-2012 | BBB-/Negative/A-3  |
| 10-Feb-2012 | BBB/Negative/A-2   |

#### Sovereign Rating

|                     |                 |
|---------------------|-----------------|
| Italy (Republic of) | BBB-/Stable/A-3 |
|---------------------|-----------------|

#### Related Entities

##### Iccrea BancaImpresa SpA

|                      |             |
|----------------------|-------------|
| Issuer Credit Rating | BB/Stable/B |
| Junior Subordinated  | B-          |
| Senior Unsecured     | BB          |
| Short-Term Debt      | B           |
| Subordinated         | B           |

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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