The right direction.

Annual Report
and Financial
Statements

2016

Iccrea Banca

2016 Annual Report and Financial Statements
Iccrea Banca S.p.A.

Iccrea Banca S.p.A.
Central Credit Institution of the Mutual Banking Industry
Parent Company of the Iccrea Banking Group
Registered office and Headquarters: Via Lucrezia Romana 41/47 - 00178 Rome
Share capital: €1,151,045,403.55 fully paid up
Company Register 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 ID no. (8000)

CONTENTS

Report on operations

for the financial year January 1 - December 31, 2016

CONTENTS

REPORT ON OPERATIONS

CORPORATE BOARDS

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

Board of Directors

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

Executive Committee

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

Board of Auditors

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

Senior management

RUBATTU Leonardo	General Manager
BOCCUZZI Giovanni	Vice General Manager

INTRODUCTION

Dear Shareholders,

The year 2016 was one characterized by events that engendered even more uncertainty in the market.

The consolidation of a number of operations initiated in 2015 for the resolution and reorganization of significant parts of the Italian banking sector, the shock of Brexit, which undermined an already weak Europe, heightened tensions in the Middle East and additional uncertainties in an evolving geopolitical situation all had an impact on the strategies and the consequent volume of bank operations. For the European banking industry, this environment was associated with a reference market characterized by interest rates at zero, increasingly tight regulation and increasingly demanding customers.

The Italian mutual banking industry is in the midst of these changes and cannot stand still. It must continue to evolve to seize all value-creating opportunities and maintain its leading role in the European banking landscape.

With Law 49/2016 and the update of Bank of Italy Circular 285 of November 2, 2016, the creation of the Mutual Banking Group got under way. The new group is called upon to give an effective and concrete response to strengthening the role of the mutual banks in their territories. The main challenge is the need to build, using a sound and structured process, the new group organization that the reform set out, with a view to strengthening the foundations of the mutual banking system and giving the mutual banks increasingly evolved support. The mutual banking industry and the mutual banks themselves will continue to be an active part of the Italian economic system, and Iccrea fully understands the responsibility of being a Parent Company, as its vocation and intentions are to be a partner of the mutual banks.

As we have seen, the formation of the Banking Group is being undertaken in a competitive environment, one whose complexity is being increased as a result of the combined impact of a variety of factors:

- the continuous evolution of customer behavior, induced and supported by the development of digital technologies, which has made banks' traditional customer relationship model less comprehensive and increasingly less effective;
- 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;
- a macroeconomic and financial environment that is still characterized by a weak economic recovery, which hinders the provision of any strong support for the manufacturing and services sectors, and by very low, if not negative, interest rates that are squeezing margins in the lending market;
- supervisory action calling for banks, especially Italian banks, to improve the quality of their assets through effective measures to reduce the stock of bad loans and to revise the models and policies for managing those assets.

It is increasingly clear that the traditional business model of banks must be scrutinized and that, in order to continue to play the role of local banks supporting their communities, a structural revision of the approach to the supply of products and services, and the associated cost structure, is needed.

Discipline, efficiency and profitability are the key words that best summarize the substance of this break with the past. For the mutual banking industry, priority will be given to maintaining and strengthening a sound capital base and adopting a more risk-sensitive approach to enhance its ability to generate value for the benefit of the communities and territories in which the mutual banks operate.

The action of the ECB's supervision of our Group, consistent with the environment described above, is conducted along several lines:

- assessing the sustainability and robustness of the business model, both through the analysis of the final data and the content of the three-year strategic plan;
- examining strategies for managing non-performing positions and initiatives to reduce them;
- conducting ordinary inspections in various areas, such as governance, the lending process and IT security.

Following intense supervisory activity, the European Central Bank's assessment of the Banking Group, as expressed in the SREP decision at the end of 2016, confirms that the Group has effective and comprehensive strategies and processes to measure, maintain and allocate capital, and that the amount, type and allocation of capital are generally appropriate to cover the nature and level of risks to which the Group is or could be exposed.

In this scenario, last year the Iccrea Banking Group carried out the merger of Iccrea Banca and Iccrea

Holding, thereby installing an entity with a banking license at the head of the group and allowing the rapid start of the process of reforming the mutual banking industry. At the same time, beginning with an in-depth analysis conducted by the ECB in 2015, a thorough revision of the Group's governance arrangements was conducted in order to give the Group with an efficient, functional system aligned with the expectations of the market and the supervisory authorities.

In 2016, the Iccrea Banking Group forged ahead with the process of improving asset quality and strengthening capital, despite the high extraordinary costs recorded during the year, notably those related to the National Resolution Fund, and maintained its constant support for operations of the mutual banks and the local communities and businesses they serve.

The Group worked with the mutual banks, in all segments of operations, to sustain the development of the main economic sectors, supporting entrepreneurship and households and promoting financial inclusion.

The Group maintained and strengthened its range of solutions for the benefit of the mutual banks and their customers. At the end of 2016, the Group was operational in about 25 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.

During the 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. The central finance role played by the Group enabled the mutual banks to access TLTRO funds for their corporate and retail customers. In addition, it worked intensively to offer customized advisory services, with the primary objective of assisting mutual bank customers in protecting their savings.

The commitment that the Group is devoting to running the project to establish the Mutual Banking Group has been intense. These complex activities - which involve governance, business and control system issues, as well as the mutual banks themselves, underscoring the need to meld the skills and experience of each entity – should enable the Group to define and implement its new organization by the deadline for starting operations scheduled for the second half of 2018.

The changes in progress have a common purpose: making the mutual banks ever more competitive.

We cannot afford to lower our guard. We have to work hard to be prepared for our appointment with the future.

Dear Shareholders, only together can we tackle face all the challenges that await us. That is why the contribution of commitment, skills and responsibility, together with the trust of our customers and shareholders, is and will be, now more than ever, a key resource for overcoming a turning point in the history of mutual banking.

1. OPERATING CONDITIONS

The international macroeconomic environment[1]

Recent cyclical indicators signal a gradual firming up of the outlook for global growth, thanks in part to expansionary economic policies.

In the fourth quarter of 2016 domestic demand in the United States strengthened as a result of resilient private consumption and growing investment. The slowdown in GDP growth, which fell to an annualized 2.1% from 3.5% in the previous period, was due to the decline in exports, which had surged to exceptionally high levels in the third quarter.

In Japan, GDP growth was unchanged at 1.2%. The data for the first quarter of 2017 point to a strengthening of domestic demand and an improvement in the labor market.

In the United Kingdom, growth accelerated to 2.7% thanks to the net positive contribution of foreign trade: exports grew significantly, thanks in part to the depreciation of the pound sterling, while imports contracted.

In China, the rate of growth increased slightly in the fourth quarter of 2016, reflecting the recovery in exports and the protracted effects of fiscal and monetary stimulus on domestic demand. In the same period, Russia's GDP returned to growth, benefiting from the upturn in oil prices.

Consumer price inflation increased in the advanced economies, mainly owing to the upturn in the prices of energy products.

In February consumer price inflation in the United States rose to 2.7% (2.2% net of food and energy products). In Japan, inflation remained very low (0.3%). In the United Kingdom, consumer price inflation increased to 2.3%. Inflation decreased in February in all the main emerging economies, to 0.8% in China, 3.2% in India, 4.8% in Brazil and 4.6% in Russia.

According to OECD projections released in March, global GDP will grow by 3.3% in 2017 (versus 3.0% in 2016) and by 3.6% in 2018. Compared with November 2016, the estimates for 2017 were revised slightly upwards for almost all the main advanced economies while remaining practically unchanged for the emerging countries.

Among the emerging economies, the rebound in the prices of raw materials should assist the recovery in Brazil and Russia and benefit the other commodity-producing countries as well.

The recovery of the global economy remains subject to several elements of uncertainty arising, among others sources, from the possibility that the economic policies of the main areas could follow diverging paths, partly in connection with the risks associated with a normalization of US monetary policy. In the United States, the expansionary fiscal policy measures the new administration intends to adopt have not yet been clearly spelled out; there is the possibility that protectionist measures will be taken, entailing the risk of a negative impact on world trade and global economic activity.

The more financially vulnerable among the emerging economies could be affected by sudden increases in foreign interest rates and further depreciation of their currencies against the dollar.

In 2016 as a whole international commerce grew very slowly, by about 2%. Beginning-of-year data confirm the recovery in world trade, which appears to be connected to stronger investment in many economies, investment being one of the most trade-intensive components of demand. Downside risks could arise mainly from the emergence of protectionist pressures.

As expected, at its meeting of 15 March the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 0.75-1.00%, citing improvement in the labor market and signs of recovery in investment. The Federal Open Market Committee kept its projections for interest rates in the next three years practically unchanged, confirming there will be two further interest rate hikes in 2017 (median assessment) for a total of 50 basis points.

In February the Bank of England confirmed the expansionary stance it adopted at the end of August. The Bank of Japan kept its monetary policy stance unchanged, holding its ten-year rates near zero. In China, the central bank tightened monetary conditions slightly by raising its official rates on refinancing operations and on its standing facilities by 20 basis points.

[1] *Source: Banca d'Italia, "Economic Bulletin", no. 2/2017*

Macroeconomic conditions in Italy[2]

The most recent figures point to a gradual acceleration in economic activity.

At the end of 2016, the annual rate of GDP growth was revised upwards (+1.0%, compared with the +0.8% projected last June).

In March, industrial production showed an annual increase of 2.8%, while in the first quarter of 2017 capacity utilization rose from 75.7% to 76.5%. In February, turnover posted rapid growth (+4.6% year-on-year) and orders in industry rose accordingly (+7.8%). In April the confidence indicator for manufacturing firms rose from 105.1 to 107.4 points, while the PMI for manufacturing firms rose from 55.7 to 56.2.

In the labor market, the unemployment rate in March began to increase again after three consecutive decreases (11.7%, up from 11.5% in February), reflecting the decline in the number of jobseekers.

The weak employment situation contributed to braking the growth in gross wages and, as a result, disposable income. Overall retail sales contracted by 1.0% year-on-year, while preliminary estimates of consumer prices in April signaled a year-on-year rise of 2%. Core inflation in the same period rose from 1.8%, up from 1.4% in March.

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

Also in February, imports from European Union countries rose to €19.7 billion (up from €17.9 billion in the previous period), as did exports, which in the same month rose to almost €20 billion. By contrast, imports from non-EU countries contracted by 7.7% month-on-month, while exports rose by more than 10%.

The trade balance with non-EU countries returned to surplus following the halt in January.

Overall, imports increased, rising to €32.9 billion. The month-on-month increase was 2.5%, while the year-on-year rise came to 9%.

The Italian banking system

In 2016, bank lending progressively began to expand again, albeit at a modest pace. The recovery was led by lending to households, while loans to firms stopped contracting. Household demand for credit was fueled by very low interest rates, the outlook for the real estate market, spending on durables and consumer confidence.

For firms, demand was instead buoyed by stock-building and the need to finance net working capital, as well as the opportunity to refinance/renegotiate debt to take advantage of the low level of interest rates.

The supply of credit remains tentative, however, owing to the uncertainty engendered by non-performing loans and the abundance of liquidity in the system.

In 2016 overall lending growth was sharply impacted by the assignment of bad debts. This is expected to continue over the next three years.

For more than two years now, the only form of direct funding from households that has registered any significant growth is current accounts. This is partly attributable to the low opportunity cost of holding liquidity, in view of the very low yields on other forms of saving.

In this environment, bonds contracted steeply yet again (-11.6%) as a result of their lack of attraction for customers and the limited need for financing on the part of banks, which still hold funds obtained from the Eurosystem through the TLTROs.

Looking ahead in 2017, net interest income could rise slightly, thanks in particular to banks that achieve the lending targets envisaged in the rules governing the TLTRO program. The return on securities could also show some recovery, sustained by the increase in yields on Italian government securities.

The mutual banks[3]

The analysis of the economic situation reveals the difficulties facing the operations of banks in the medium term.

Lending by mutual banks in 2016 contracted compared with 2015 (-0.8%).

Gross mutual bank lending to customers at December amounted to €132.9 billion, representing a market share of 7.2%. Developments in mutual bank lending differed in Central Italy, where growth was a substantial (+1.9%).

Mutual bank lending to enterprises came to €81.7 billion (-3.1%, compared with -2.3% for the banking system as a whole), equal to a market share of 9.5%.

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

3 Source: Circolare statistica Federcasse, December 2016

By borrower segment, mutual bank lending to consumer households expanded by +3%. Conversely, lending to producer households contracted by -2.7%.

The mutual banks' share of the markets in which they specialize amounted to 17.9% of lending to producer households, 8.6% of lending to consumer households and 8.5% of lending to non-financial corporations. Their share of lending to the non-profit sector was also very large at 13.5%.

By geographical area, lending to consumer households increased sharply in Central Italy (+4.9%).

An analysis of mutual bank lending to enterprises shows a greater concentration of operations in the "construction and real estate" sector than the banking industry average (33.1%, compared with 28.8%) and a significant proportion of lending to the agricultural sector (10% for the mutual banks, compared with 5% for the banking system as a whole).

Against a background of a contraction in lending to businesses, lending to "professional, scientific and technical activities" segment continued to expand (+2.4%, compared with a banking system average of -5.7%). The mutual banks' market shares remained high for the agricultural sector at 18.8%, hotel and restaurant services (18.6%), construction and real estate (10.9%) and wholesale and retail trade (9.9%).

Mutual bank funding from banks and from customers totaled more than €195 billion at the end of 2016, slightly down on 2015 (-0.9%, compared with +0.3% for the banking system average).

There was a parallel reduction in the stock of funding from customers: the aggregate (including bonds) amounted to €160.7 billion, a slight contraction of -0.7% year-on-year (+0.3% for the banking system).

Bond issuance by the mutual banks contracted in all geographical areas, in line with developments in the banking system as a whole.

Of total mutual bank funding, 82.2% was represented by funding from customers and 17.8% by interbank funding. The composition of funding differs significantly for the banking system as a whole, where funding from banks, despite a contraction in recent months, is substantially higher at 28.7% at the end of the third quarter of 2016. Within mutual banks' funding from customers, the proportion accounted for by current accounts remains well above the system average.

The financial position of the mutual banks (capital and reserves) deteriorated by 1.8% year-on-year to €19.9 billion. The Tier1 ratio and the total capital ratio rose slightly, however, to 16.9% and 17.3% respectively.

Preliminary performance data[4] confirm the substantial reduction in margins. Net interest income contracted by 8.4% year-on-year (-3.3% in the banking system as a whole), revenue from trading (item 100) amounted to €752 million, a sharp contraction on 2015 (-55.2%, compared with a system average of -44.3%). Net revenue from services did not offset the deterioration in core operations. Gross income fell substantially (-18.4%, compared with -6.1% for the banking industry). A number of positive signs came with regard to costs, which according to preliminary information contracted year-on-year (-5.8%), with decreases registered in both personnel costs and in other administrative expenses. As a result, operating income amounted to €1.9 billion in 2016, down 35.2% on the previous year (-29.3% for the banking system average).

At the geographical level, margins contracted in general and costs fell, albeit to differing extents.

Performance figures at the end of 2016 show an increase of about €400 million in net revenue from services compared with the end of the third quarter of the year. The aggregate totaled €1.4 billion at the end of December. Nevertheless, the year-on-year change was slightly negative (-0.8%), although less markedly that that for the banking industry as a whole (-3.2%). Commission and fee income from the distribution of third-party services made a positive contribution (+€13 million on 2015, or an increase of +10.9% compared with the average of 0.1% for the industry as a whole).

4 Source: B.I. BASTRA returns.

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:

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

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

Business areas

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

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

With regard to **Iccrea Banca's** role as the mutual banking system's finance hub and in managing liquidity, in 2016 the mutual banks continued to participate in collateralized funding activities through transactions with the ECB and with market counterparties. Total collateralized financing disbursed by Iccrea Banca to the mutual banks through the pool collateral mechanism at the end of 2016 amounted to €19.7 billion, in line with the stock at the end of 2015.

Following the initiative announced by the ECB in March 2016, Iccrea Banca took on the role of lead institution in the establishment of a TLTRO-II Group, which in addition to the other banks of the Iccrea Banking Group involved 158 banks, which became 143 following subsequent mergers and takeovers. With an upper participation limit of €14.4 billion, in 2016 €4.6 billion in funds raised with the first TLTRO program, as well as additional drawings of €0.9 billion, for a total of €5.5 billion, were replaced with funding under the new program. The remaining €8.9 billion were drawn in the last auction in March 2017.

As concerns the offering of investment instruments, Iccrea has maintained the range of products for both the shareholders of the banks and the bank's customers. In 2016, six bond issues totaling €577 million were carried out, with most being subscribed by mutual bank customers.

At the end of 2016, mutual bank deposits on the daily settlement account amounted to about €5 billion, while fixed-term deposits came to €1.85 billion.

The wholesale trading of Italian government securities saw volumes contract in 2016 to €108 billion, although Iccrea remained one of the leading operators in the sector.

As part of its market making activities, Iccrea Banca maintained quotes for 500 eurobonds and about 100 Italian government securities. Total volumes at December 31, 2016 amounted to about €21 billion.

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

Within its derivatives operations, Iccrea Banca provided the mutual banks with instruments to hedge their assets with a notional value of about €625 million.

In the order collection segment, 2016 saw a reduction of 22.1% in total volumes, from €50.6 billion to €39.4 billion, in line with the downturn in the associated markets. Iccrea Banca nevertheless strengthened its position, ranking first in volumes handled for third parties on the Domestic MOT market operated by Borsa Italiana, with a share of 17.1%, and third in the Euro-TLX and Hi-MTF bond markets of Borsa Italiana, with a share of 11.7%.

Activity on the primary market also contracted by about 17%, with volumes of €2.9 billion, compared with €3.5 billion in 2015. The decline was mainly associated with the reduction in volumes in government securities auctions.

The Bank also participated in the placement of the tenth issue of the BTP Italia, acting for the third time as co-dealer. Overall, Iccrea Banca participated in 141 auctions and placements, passing about €9 million in fees and commissions through to the mutual banks.

As part of the structuring of securitizations and assignments of non-performing assets to support the mutual banks and the companies of the Group, in 2016 three operations were carried out:

- the assignment without recourse of €366 million in non-performing loans originated by 33 assignors;
- the structuring of a securitization of performing lease receivables originated by Iccrea BancaImpresa totaling €1.3 billion. The EIB participated with the facilitated subscription of the senior tranche of €480 million; KFW and CDP subscribed the mezzanine tranche of €65 million;
- the structuring of a self-securitization of performing home loans originated by 16 mutual banks in the amount of about €660 million.

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

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

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

This environment, together with the pressure from the main players in the field and the decline in revenue from cash and cashier's checks owing to low ECB rates, makes it essential to develop new value-added services for customers to preserve profitability and enhance the loyalty of mutual bank customers. Accordingly, Iccrea Banca is continuing development of products like MyBank and CBill for payments (completion of product range in 2017 on the invoicer/creditor side), electronic invoicing, digital document retention and services connected with the digitization of government and the STS.

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

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

- is participating on the top decision-making body (the Board) in February 2015 as part of the Italian representation coordinated by ABI with Unicredit, ISP, and ICBPI, thus giving it the opportunity to participate in strategic decisions at the time of their formation;
- is participating in the working group on the evolution of SEPA mechanisms;

- defined the instant-payment mechanisms as Italian representative;
- has taken advantage of the option granted by the EPC to configure our banks as a group, which has made it possible to achieve significant savings on fees for participation in SEPA.

With regard to the key figures for 2016, Iccrea Banca handles a total of 272,800,000 transactions in various products, an increase of 5.97% on 2015.

The natural decline in checks, under way for some years now, was more than offset by the increasing use of the pan-European SEPA products (Credit Transfer and Direct Debit).

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

The most important projects in 2016 concerned areas covered by the European Market Infrastructure Regulation (EMIR) governing derivatives and the completion of the new European securities settlement system, Target2 Securities.

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

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 80,000 instruments, around 14,500 of which have a balance;
- administrative support for activities connected with the management of the "pool collateral" mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for mutual bank issues in the "order driven" segment of the HI-MTF market aimed at giving them the liquidity conditions provided for under Consob regulations. As of December 2016, there were 60 mutual banks, with a total of 1,200 issues listed;
- the issuers service, which offers administrative support for the issuance activity of 145 mutual banks;
- the management of activities connected with the distribution of investment funds of BCC Risparmio & Previdenza. The results achieved in 2016 confirmed the positive trend seen in recent years, with an increase in participating companies to 21 and a significant increase in volumes in the retail segment, while remaining stable in the institutional segment and achieving assets under administration of about €5 billion for retail customers.
- the services concerning compliance with transparency and the monitoring of possible market abuse for which, in 2016, 134 mutual banks had subscribed to the Transaction Reporting service and 125 mutual banks to the MAD service;
- support for mutual banks and their customers in complying with EMIR and FACTA obligations, providing ongoing, specialist support in meeting the obligations introduced during the year.

As of the end of December 2016, securities worth about €88 billion were held in custody and administration.

The full operational continuity of the **IT systems** of Iccrea Banca and **BCC Sistemi Informatici** was assured in 2016, with support provided for the implementation of the Banking Group's strategy.

More specifically, work on implementing the transition from a single-company focus to a Group ICT service model continued, with the aim of creating an integrated organization the operational models and performance meeting top industrial standards.

The major ICT restructuring initiatives included:

- the restructuring of service delivery processes based on the ITIL v3 framework, which is considered to be the most robust standard for IT infrastructures, with a specific focus on incident management and change management;
- the ongoing process of optimizing the business continuity and disaster recovery process to support the Banking Group and the mutual banks;
- consolidation of the supplier base.

In addition, the year saw the continuation of the development of the "Make IT" program, which was launched in July 2015, with the following objectives:

- completing the actions needed to obtain PCI-DSS certification (certification obtained in October 2016);
- secure the ICT architecture;
- complete the industrialization process, evolving the basic elements in accordance with the path initiated with the "TrasformAzione" program;
- incorporate the IT infrastructure upgrade recommendations issued by the European Central Bank.

Service levels delivered were in line with the previous year. ICT services were delivered consistently and continuously, with average platform availability of 99.70%.

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

In 2016, ICT continued the expansion of the role of the Technology Office (TO) to cover all the companies served, thereby providing ongoing support for base services. An important step in the construction of an infrastructure hub serving the Mutual Banking Group was the decision of Raiffeisen to select the Iccrea Banca TO as the outsourcer for its infrastructure, including the business continuity solution.

As part of the institutional services provided to the mutual banks, total bad debts managed by **BCC Gestione Crediti** amounted to €3.2 billion.

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

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

In 2016, new medium/long-term lending to firms by **Iccrea BancaImpresa** amounted to about €1.8 billion, with new credit in the leasing segment of about €850 million, ordinary lending of €549 million, structure finance transactions of €208 million, international lending of about €130 million and guarantees issued of €60 million.

Iccrea BancaImpresa, as a bank authorized by the Ministry of Agricultural Policy (MAP) and a lending bank (in an agreement with Cassa Depositi e Prestiti) entered into no fewer than 7 industry contracts, in a pool arrangement with the mutual banks, with leading Italian agricultural and food product companies, with more than €200 million in investment. About 50% of the investment will be supported by specific funding provided by CDP under the Rotating Fund for Enterprises) at a fixed rate of 0.50% for a maximum term of 15 years. These contracts will enable many agricultural and food product firms to undertake innovative projects and support exports in the produce, rice, poultry and other segments of the industry. Iccrea BancaImpresa was the bank with the largest number of industry contracts in its portfolio (7 out of a total of 11) among the 5 banks authorized by the MAP.

Under the umbrella of services provided to the mutual banks, the service of obtaining and managing guarantees backed by the guarantee fund of Mediocredito Centrale involved Iccrea BancaImpresa in transactions with 163 mutual banks, who submitted about 6,800 applications. Since the start of the service, it has enabled the mutual banks to provide financing to 9,550 firms totaling €1.4 billion of zero-weighted exposures.

These volumes are supplemented by €185 million in new small-ticket lease transactions (**Bcc Lease**) and turnover of €1.5 billion in the factoring segment (**Bcc Factoring**).

Total lending in the Corporate area reached €8.8 billion at December 31, 2016.

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

In the **electronic money** sector, in 2016 Iccrea Banca continued to register growth in the card segment (issuing), with 3.5 million operational cards and about €17.7 billion in transaction volume and in the POS and ATM segment (acquiring), with more than 170,000 POSs and 4,300 ATMs active and about €19.6 billion in transaction volume.

In the issuing segment, all three components (debit, prepaid and credit) posted gains, which as at the end of 2016 can be summarized as follows:

- operational debit cards with chip technology exceeded 2.2 million cards, compared with 2.1 million in 2015, an increase of 6.7%;
- the stock of operating credit cards expanded by 6.2%, rising from 780,000 cards at the end of 2015 to 828,000 at the end of 2016;
- operational prepaid cards rose from 406,000 cards at the end of 2015 to 453,000 at the end of 2016, an increase of 11.5%.

Analogously, the acquiring segment also posted an increase in volumes: total transaction volume in 2016 amounted to €19.6 billion (of which €13.1 billion through the PagoBANCOMAT/BANCOMAT circuits and

€6.5 billion through international circuits), compared with €18.5 billion in 2015.

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

- insourcing of back office/operations activities connected with the acquiring service on international circuits, with a substantial increase in the efficiency of the underlying cost base;
- development of the 'push acquiring' project aimed at supporting the mutual banks in placing the Acquiring product through a dedicated network of agents. At December 31, 2016 the new channel enable the participating mutual banks to increase their acquiring volume by more than €100 million. A total of 44 mutual banks are participating in the project, of which 26 are already placing the service and 7 are in the process of activation;
- improvement of the new trouble-ticketing channel devoted to providing assistance to the mutual banks;
- completion of the Direct Issuing product range on the MasterCard circuit, which enables the mutual banks to place the new cards (debit/credit/prepaid) managed entirely in-house;
- completion of certification with circuits and start of insourcing of POS acquiring processing;
- evolution of the Ventis.it marketplace, dedicated to supporting the digitization of the SME customers of the mutual banks. Iccrea Banca involved the mutual banks in the search for/selection of "local excellences": customer firms that stand out for the excellence of their products, to which the mutual banks offer free access to the new marketplace;
- repricing of issuing products for mutual banks following action by regulators to sharply reduce interbank commissions;

In the consumer credit sector, new lending in 2016 by **BCC CreditoConsumo** amounted to €424 million, generated with 306 participating mutual banks. The stock of loans at December 31, 2016 amounted to about €916 million.

In the asset management sector, total assets under management/placement by **BCC Risparmio & Previdenza** amounted to €12.7 billion, with net funding in 2016 of about €1.8 billion. Assets under management include €1.6 billion in investment funds, €2.7 billion in fixed-income funds, €2.6 billion in retail and institutional portfolio management products, about €450 million in supplementary pension funds and €5.3 billion in third-party SICAVs.

Banca Sviluppo completes the Iccrea presence in the retail segment with loans of €1.1 billion, direct funding of €2.1 billion and indirect funding of €667 million.

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

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

At December 31, 2016, the total amount of fees and commissions passed through to the mutual banks amounted to about €350 million, to which the growth in electronic money accounted for the most significant portion.

€/millions	2012	2013	2014	2015	2016
Asset management	23.9	29.1	40.6	61.0	74.5
Insurance investment products	17.3	13.5	16.6	28.8	26.3
Corporate loans	8	7.4	7.0	5.8	5.5
Electronic money	202.2	209	226.5	239.8	220.6
Consumer loans	18	18.8	18.6	20.2	22
Total fees and commissions passed through	**269.4**	**277.7**	**309.3**	**355.6**	**348.9**
System contributions	4.7	4.6	5.0	5.0	4.1
Dividends of the Parent Company (*)	7.6	10.4	-	13.9	14.2
Total	**280.8**	**291.9**	**314.3**	**374.5**	**367.2**

(*) Dividends by year of disbursement.

In addition, in 2016 financial intervention with the Deposit Guarantee Fund and the Institutional Mutual Bank Guarantee Fund amounted to €4.2 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:

- €21.5 billion in collateralized loans in the form of operating loans and facilities (average annual exposure);
- €247 million in bonds underwritten (average annual exposure);
- €9 billion average balance in active management of liquidity using short-term treasury instruments;
- €7.4 billion in initial value of securitizations, with a residual principal of €3.6 billion;
- €5.5 billion in financing through the T-LTRO Group, which in addition to the other banks of the Iccrea Banking Group saw the participation of 143 mutual banks.

Support for system operations

- €10 billion in average lending to the corporate and retail customers of the mutual banks;
- €13 billion in assets managed/placements with mutual bank customers;
- €42 billion in direct trading and order collection;
- 273 million items handled in the collections and payment segment;
- €37.3 billion in volumes handled in the electronic money segment.

Finally, as part of the support provided to the mutual bank system, the subsidiary Banca Sviluppo acquired the assets of Banca Brutia in compulsory liquidation and Crediveneto in compulsory liquidation. Both operations were carried out as part of the rescue interventions of the Institutional Mutual Bank Guarantee Fund.

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

In February 2016, the project for the reverse merger of the former Iccrea Holding into Iccrea Banca got under way. The project was drafted pursuant to and for the purposes of Article 2501 ter of the Italian Civil Code.

The decision to use a reverse merger structure for the transaction was prompted by the need to:

- maintain the stability and continuity of the relationships and of the image and reliability that Iccrea Banca (*Istituto di Credito delle Casse rurali e artigiane*, now *Banche di Credito Cooperativo*) has developed and consolidated over time;
- continue operating on domestic and international markets based on Iccrea Banca's existing banking license.

The merger of Iccrea Banca and Iccrea Holding led to the creation of a Parent Company authorized to engage in banking and subject to the supervisory regulations set out in Regulation (EU) 575/2013 (the CRR). The operation, however, took place in the broader context of the reorganization of the mutual banking system, in implementation of the provisions of Decree Law 18 of February 14, 2016, published in *Gazzetta Ufficiale – serie generale* no. 37 – of February 15, 2016) ratified with Law 49 of April 8, 2016. This approach enabled Iccrea to continue operating on domestic and international markets based on Iccrea Banca's existing banking license.

The reverse merger of the Parent Company Iccrea Holding into the subsidiary Iccrea Banca was carried out using the "simplified procedure" envisaged under Article 2505 of the Civil Code, as the operation involved a merger between companies in which one held the entire share capital of the other. The share capital of the new Parent Company, Iccrea Banca, is equal to the value of the share capital of the merged entity (Iccrea Holding), or €1,151,045,403.55.

In view of the fact that the share capital, par value and number of shares of the merged entity (Iccrea Holding) are equal to those of the new post-merger Parent Company (Iccrea Banca), 1 (one) ordinary share of the new Parent Company (Iccrea Banca) has been assigned for each share of Iccrea Holding held.

Having obtained the required authorizations from the European Central Bank, the Bank of Italy and IVASS, on July 12, 2016 the Extraordinary Shareholders' Meetings of the companies involved authorized the merger of Iccrea Holding into Iccrea Banca.

As the implementation of the merger involved changes to the articles of association, the shareholders of Iccrea Holding that did not approve the resolution authorizing the merger are entitled to withdraw from the company of which they were shareholders pursuant to and for the purposes of Article 2437, paragraph 1, of the Civil Code. The resolution approving the merger established that the time limits and procedures for exercising the right of withdrawal, and the procedure for settling payment of the shares, would be governed by Articles 2437 bis, ter and quater of the Civil Code.

For the purposes of withdrawal, the Board of Directors determined the settlement value of the shares of the merged entity and filed that valuation at the registered office.

The right of withdrawal was exercised within the time limits by a number of shareholders of the merged entity holding a total of 818,553 ordinary shares with a par value of €42,278,262.45.

In December, payment was made for the 818,553 shares held by the withdrawing shareholders at the settlement price of €52.80 per share, for a total of €43,219,598.40 (based in part on the appraisal performed by an independent expert). As part of this operation, 249,089 shares (with a total value of €13,151,899.20) were assigned to shareholders who exercised the right of pre-emption at the settlement price.

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

As a result of the foregoing, in order to enable a uniform comparison of the values reported in the financial statements at December 31, 2016 and those for the previous year, the pro forma balance sheet and income statement at December 31, 2015 of Iccrea Banca Spa are presented below to take account of the effects of the merger with Iccrea Holding Spa. The adjustments involve the aggregation of data for the previous year of Iccrea Banca Spa and Iccrea Holding Spa net of intercompany items.

BALANCE SHEET - ASSETS

	ASSETS	31/12/2016	31/12/2015 PRO FORMA
10.	Cash and cash equivalents	98,423,950	91,046,131
20.	Financial assets held for trading	420,177,927	402,779,515
30.	Financial assets at fair value through profit or loss	14,558,805	337,911,423
40.	Financial assets available for sale	5,650,669,289	6,762,801,406
50.	Financial assets held to maturity	1,600,389,734	1,779,509,026
60.	Due from banks	30,999,441,676	31,942,309,971
70.	Loans to customers	4,181,848,448	4,077,717,540
80.	Hedging derivatives	15,325,730	10,181,179
90.	Value adjustments of financial assets hedged generically (+/-)	-348,377	931,764
100.	Equity investments	1,139,962,602	1,115,125,914
110.	Property and equipment	12,567,457	8,066,474
120.	Intangible assets	5,681,878	8,998,195
130.	Tax assets	69,899,091	45,666,086
	a) current	39,468,187	35,932,028
	b) deferred	30,430,904	9,734,058
	of which Law 214/2011	*2,968,715*	*3,124,963*
150.	Other assets	186,967,310	161,286,226
	TOTAL ASSETS	**44,395,565,520**	**46,744,330,850**

BALANCE SHEET - LIABILITIES

	LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016	31/12/2015 PRO FORMA
10.	Due to banks	13,265,098,886	13,670,456,674
20.	Due to customers	24,444,622,415	25,768,387,189
30.	Securities issued	4,207,516,587	4,368,997,749
40.	Financial liabilities held for trading	422,615,890	475,615,372
50.	Financial liabilities at fair value through profit or loss	0	437,636,496
60.	Hedging derivatives	51,814,840	88,034,704
80.	Tax liabilities	1,966,154	24,595,518
	a) current	0	5,576,701
	b) deferred	1,966,154	19,018,817
100.	Other liabilities	371,378,874	213,900,594
110.	Employee termination benefits	12,262,953	13,219,334
120.	Provisions for risks and charges::	12,445,798	20,645,698
	b) other provisions	12,445,798	20,645,698
130.	Valuation reserves	67,248,992	100,688,528
160.	Reserves	391,785,505	301,667,143
170.	Share premium reserve	4,746,737	4,746,737
180.	Share capital	1,151,045,404	1,151,045,404
190.	Treasury shares (-)	-30,067,699	-442,898
200.	Net profit (loss) for the period (+/-)	21,084,184	105,136,609
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**44,395,565,520**	**46,744,330,850**

INCOME STATEMENT

		31/12/2016	31/12/2015 PRO FORMA
10.	Interest and similar income	232,349,684	275,610,133
20.	Interest and similar expense	-182,127,452	-192,538,604
30.	**Net interest income**	**50,222,232**	**83,071,529**
40.	Fee and commission income	364,277,625	383,716,849
50.	Fee and commission expense	-236,805,464	-256,331,772
60.	**Net fee and commission income (expense)**	**127,472,161**	**127,385,077**
70.	Dividends and similar income	22,777,687	9,845,412
80.	Net gain (loss) on trading activities	15,983,680	22,351,184
90.	Net gain (loss) on hedging activities	1,572,880	65,096
100.	Net gain (loss) on the disposal or repurchase of:	78,139,983	136,979,680
	a) loans	60,520	3,692,881
	b) financial assets available for sale	81,750,457	141,688,042
	d) financial liabilities	-3,670,994	-8,401,243
110.	Net gain (loss) on financial assets and liabilities designated as at fair value	1,099,167	1,994,915
120.	**Gross income**	**297,267,790**	**381,692,893**
130.	Net losses/recoveries on impairment:	-17,104,713	-3,440,772
	a) loans	4,650,547	748,267
	b) financial assets available for sale	-19,133,210	
	d) other financial transactions	-2,622,050	-4,189,039
140.	**Net income (loss) from financial operations**	**280,163,077**	**378,252,121**
150.	Administrative expenses:	-303,881,672	-279,479,690
	a) personnel expenses	-92,586,543	-85,027,476
	b) other administrative expenses	-211,295,129	-194,452,213
160.	Net provisions for risks and charges	7,146,629	-212,460
170.	Net adjustments of property and equipment	-2,992,466	-3,073,477
180.	Net adjustments of intangible assets	-5,658,354	-6,902,286
190.	Other operating expenses/income	29,393,452	23,741,220
200.	**Operating expenses**	**-275,992,411**	**-265,926,693**
210.	Profit (loss) from equity investments	-1,959,674	-
250.	**Profit (loss) before tax on continuing operations**	**2,210,992**	**112,325,428**
260.	Income tax expense from continuing operations	18,873,192	-7,188,819
270.	**Profit (loss) after tax on continuing operations**	**21,084,184**	**105,136,609**
280.	Profit (loss) after tax on non-current assets held for sale	-	-
290.	**Net profit (loss) for the period**	**21,084,184**	**105,136,609**

The balance sheet

Assets

BALANCE SHEET DATA (millions of euros)				
AGGREGATES	Dec-16	Dec-15 pro forma	Change	% change
Due from banks	30,999	31,942	-943	-2.9%
Loans to customers	4,182	4,078	104	2.6%
Financial assets held for trading	420	403	17	4.2%
Financial assets at fair value through profit or loss	15	338	-323	-95.6%
Financial assets available for sale	5,651	6,763	-1,112	-16.4%
Financial assets held to maturity	1,600	1,780	-180	-10.1%
Equity investments	1,140	1,115	25	2,2%
Total interest-bearing assets	**44,007**	**46,419**	**-2,412**	**-5.2%**
Other non-interest-bearing assets	389	326	63	19.3%
TOTAL ASSETS	**44,396**	**46,744**	**-2,349**	**-5.0%**

At December 31, 2016, total assets and liabilities stood at €44.4 billion, compared with €46.7 billion at December 31, 2015.

The main changes involved:

- a decrease of €943 million in amounts due from banks, due largely to the net impact of a decline of €2.5 billion in repurchase transactions (mainly intercompany), an increase in lending to mutual banks of €793 million and the subscription of intercompany debt securities in the amount of €789 million;
- a decrease of €323 million in financial assets at fair value, due to the maturity of a security held in portfolio;
- a decrease of €1.1 billion in financial assets available for sale following the disposal of government securities.

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

At December 31, 2016 loans to the mutual banks connected with pool collateral operations, including advances from the ECB secured with refinanceable securities, amounted to €19.7 billion (of which €4.8 billion in respect of funds obtained through T-LTRO II) secured by securities with a total fair value, net of the haircut, of €22.6 billion.

Due from banks (in thousands)	Dec-16	Dec-15 pro forma	Change	% change
Mutual banks	20,109,664	19,470,219	639,445	3.2%
Other credit institutions	10,889,777	12,472,091	-1,582,314	-12.6%
Total	**30,999,442**	**31,942,310**	**-942,868**	**-3.0%**

Amounts due from mutual banks increased by about €639 million, while amounts due from other credit institutions declined from €12.5 billion to €10.9 billion (of which €9.9 billion in amounts due from Group banks).

Loans to customers (in thousands))	Dec-16	Dec-15 pro forma	Change	% change
Current accounts	184,754	153,148	31,606	20.6%
Medium/long-term loans	109,948	126,023	-16,075	-12.8%
Repurchase agreements	921,560	1,409,005	-487,445	-34.6%
Other transactions	2,939,139	2,369,921	569,218	24.0%
Debt securities	6,492	0	6,492	
Impaired assets	19,955	19,618	337	1.7%
Total	**4,181,848**	**4,077,715**	**104,133**	**2.6%**

Loans to customers increased by €104 million, from €4.1 billion to €4.2 billion.

The items includes amounts due from the Clearing and Guarantee Fund totaling €2.4 billion – in respect of repurchase transactions and deposits securing transactions on financial markets – and loans to subsidiaries in the amount of €1.5 billion.

Financial assets (in thousands)	Dec-16	Dec-15 pro forma	Change	% change
HFT	420,178	402,779	17,399	4.3%
AFS	5,650,669	6,762,801	-1,112,132	-16.4%
HTM	1,600,390	1,779,509	-179,119	-10.1%

Financial assets held for trading (**HFT**) increased by €17 million. The item main represents derivatives (€329 million) connected with hedges of interest rate risk on behalf of the mutual banks and listed debt securities (€91 million) held for trading purposes.

Financial assets available for sale (**AFS**), which is mainly composed of debt securities, amounted to €5.6 billion (€6.8 billion at December 31, 2015), a decrease of €1.1 billion reflecting:

- the disposal of about €1.5 billion in government securities;

- the purchase of €443 million in units of collective investment undertakings (the Securis real estate funds from Iccrea BancaImpresa and Fondo Atlante).

Financial assets held to maturity (**HTM**) amounted to €1.6 billion (€1.8 billion at December 31, 2015), with the decline of €180 million due to securities maturing on schedule. The balance at December 31 is represented entirely by government securities (BTPs).

Equity investments amounted to €1.140 billion, up €25 million on 2015 (€1.115 billion), mainly reflecting capital payments to Banca Sviluppo (€10 million) and BCC Vita (€14.7 million) and the purchase of the investment in Ventis (€1 million). At the end of the year, total writedowns of equity investments amounted to €1.9 million (Ventis, BCC Retail and M-Facility) to reflect losses that are expected to last.

Liabilities

BALANCE SHEET DATA (millions of euros)				
AGGREGATES	Dec-16	Dec-15	Change	% change
Due to banks	13,265	13,670	-405	-3.0%
Due to customers	24,445	25,768	-1,323	-5.1%
Securities and financial liabilities	4,630	5,282	-652	-12.3%
Employee termination benefits	12	13	-1	-8.0%
Total interest-bearing liabilities	**42,352**	**44,733**	**-2,381**	**-5.3%**
Other non-interest-bearing liabilities and risk provisions	438	348	+90	+25.7%
Shareholders' equity	1,585	1,558	+27	+0.2%
Net profit for the period	21	105	-84	-80%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**44,396**	**46,744**	**-2,348**	**-5.0%**

Interest-bearing funding totaled €42.4 billion, a decline of €2.4 billion, primarily reflecting:

- a decrease of €405 million in amounts due to banks as a result of a decrease of €1 billion in uses of ECB financing, with a concomitant increase of €370 million in repurchase transactions and €310 million in deposits and current account with the mutual banks;
- a decrease of €1.3 billion in amounts due to customers due to a decline in repurchase transactions with the Clearing and Guarantee Fund;
- a decrease of €438 million in financial liabilities at fair value after a security matured.
-

Due to banks (in thousands)	Dec-16	Dec-15 pro forma	Change	% change
Mutual banks	5,963,742	5,832,497	131,245	2.3%
Other credit institutions	7,301,357	7,837,960	-536,603	-6.8%
Total	**13,265,099**	**13,670,457**	**-405,358**	**-3.0%**

Interbank deposits amounted to €13.3 billion (of which €642 million in respect of Group banks), down €405 million (€13.7 billion at December 31, 2015).

Within the overall aggregate, funding from mutual banks rose by €131 million (from €5.8 billion to €5.9 billion). The item also includes deposits received from mutual banks (€826 million) for indirect compliance with the reserve requirement.

"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 €5.5 billion.

Due to customers (in thousands)	Dec-16	Dec-15 pro forma	Change	% change
Current accounts and demand deposits	276,011	205,717	70,294	34.2%
Fixed-term deposits	2,223	11,359	-9,136	-80.4%
Loans	23,535,189	25,085,079	-1,549,890	-6.2%
Other payables	631,199	466,232	164,967	35.4%
Total	**24,444,622**	**25,768,387**	**-1,323,765**	**-5.1%**

Funding from customers declined by €1.3 billion on 2015, slipping from €25.7 billion to €24.4 billion. The decrease mainly reflects a decrease in repurchase transactions with the Clearing and Guarantee Fund.

The value at December 31, 2016 of securities issued was €4.2 billion (of which €450 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 following the merger with Iccrea Holding.

At December 31, 2016, shareholders equity excluding net profit for the year amounted to €1,585 million, an increase of €27 million on the end of 2015 (€1,558 million). The main changes comprise:

- €90 million in self-financing generated by retained earnings from 2015, net of the distribution of dividends in 2016;
- €33 million from the reduction in valuation reserves following the disposal of government securities classified as AFS and the fair value measurement of securities holdings;
- €30 million from the purchase of own shares from shareholders who exercised the right of withdrawal following the merger of Iccrea Holding into Iccrea Banca.

The income statement

INCOME STATEMENT (In thousands)				
	Dec-16	Dec-15 pro forma	Change	% change
Net interest income	**50,222**	**83,071**	**-32,849**	**-39.5%**
Gains/losses on financial transactions	96,796	161,391	-64,595	-40.02%
Dividends	22,778	9,845	12,933	131.37%
Net fee and commission income	**127,472**	**127,385**	**87**	**0.1%**
Other operating expenses/income	29,393	23,741	5,652	23.81%
Total revenues	**326,661**	**405,434**	-78,773	-19.43%
Personnel expenses	-92,587	-85,027	-7,560	8.89%
Other administrative expenses	-211,295	-194,452	-16,843	8.66%
Net adjustments of property and equipment and intangible assets	-8,651	-9,976	1,325	-13.28%
Total operating expenses	**-312,532**	**-289,455**	**-23,077**	**8.0%**
Gross operating profit	14,129	115,979	-101,850	-87.82%
Net provisions for risks and charges	7,147	-212	7,359	-3471.23%
Net losses/recoveries on impairment of loans and other financial transactions	-17,105	-3,441	-13,664	397.09%
Total provisions and adjustments	**-9,958**	**-3,653**	**-6,305**	**172.6%**
Profit (loss) from equity investments	-1,960	0	-1,960	n.a.
Profit (loss) before tax	2,211	112,326	-110,115	**-98.0%**
Income tax expense	18,873	-7,189	26,062	-362.53%
Net profit (loss) for the period	**21,084**	**105,137**	**-84,053**	**-79.95%**

The developments in performance reflect a number of non-recurring factors that had an adverse impact on the results of Iccrea Banca, which reported a **net profit of €21 million**. These factors include:

- *contributions to the National Resolution Fund* (BRRD) totaling €55 million. The contribution includes €18.4 million in ordinary contributions for 2016 and €36.7 million in an additional extraordinary contributions called in by the Bank of Italy in its notice of December 29, 2016;
- *costs for the solidarity fund* totaling €14.2 million in respect of 47 employees who voluntarily opted to participate in the solidarity mechanism;
- *impairment* of €9.7 million recognized on the units of the Fondo Atlante as a result of the decline of about 30% in the fair value of the shares of Popolare di Vicenza and Veneto Banca.

Net interest income

Net interest income for 2016 amounted to €50.2 million, down 39.3% on 2015 (€83 million). The decline was attributable to a decrease in volumes handled and, primarily, developments in market interest rates.

Gains/losses on financial transactions

Items 80, 90, 100 and 110 of the income statement totaled €97 million, a decrease of €65 million compared with 2015 (€161.4 million).
The change mainly reflects:

- an increase attributable to the gain on the disposal of Visa Europe to Visa Inc. (€45.6 million), including the earn-out provided for in the disposal of ICBPI;
- the gain recognized in 2015 (€114 million) on the disposal of ICBPI to Mercury.

The item comprises:

- the net gain on trading of €16 million;
- the net gain on hedging of €1.6 million;
- the gain on the disposal/repurchase of loans, financial assets available for sale and financial liabilities of €78 million;
- the net gain on financial assets and liabilities at fair value of €1.1 million.

Dividends

Dividends received in 2016 amounted to €22.8 million, an increase of €12.9 million compared with 2015 (€9.9 million).

Fees and commissions

Net fee and commission income from services in 2016 amounted to €127.5 million, unchanged compared with 2015. The item mainly consists of fees and commission on electronic money services (about €72 million), collection and payment services (€40.3

million), and securities management and administration services (€16 million).

Total revenues

Gross income for 2016, including other operating income (€29.4 million) amounted to €327 million, a decrease of €79 million on the €405 million posted in 2015. The change is mainly attributable to:

- the decrease in the gain on the disposal of financial assets available for sale (€60 million);
- the decrease in net interest income (€33 million);
- the increase in dividends (€12 million);
- the increase in other operating income (€5.6 million).

Personnel expenses

The Bank's personnel expenses in 2016 amounted to €92.6 million, compared with €85 million in 2015, an increase of €7.6 million. The 2016 figure includes the non-recurring component of €14.2 million associated with charges for early termination incentives.

Excluding that non-recurring component, personnel expenses declined as a result of the early termination program through the temporary redefinition of:

- the calculation of termination benefits;
- overtime pay;
- holiday pay;
- leave under the time bank mechanism;
- time off in lieu of abolished holidays.

Executives and other managers in key positions also saw their variable remuneration reduced by 50%. The cut was also proposed for the current year on a voluntary basis, with more than 70% of the employees involved participating.

Other administrative expenses

In 2016, other administrative expenses amounted to €211.3 million, including indirect taxes and duties of €13.7 million and the contribution of €55 million to the National Resolution Fund, an increase of €16.8 million on the previous year (€194.4 million). The rise mainly reflected projects involving information systems and Group projects.

Net adjustments of property and equipment and intangible assets

Total net writedowns amounted to €8.7 million in 2016, of which €3 million in adjustments of property and equipment and €5.7 million in adjustments of intangible assets.

Total operating expenses

Operating expenses in 2016 amounted to €312.5 million (€289.4 million in 2015) and include personnel expenses of €92.5 million, other administrative expenses of €211.3 million and net adjustments of property and equipment and intangible assets of €8.6 million.

Net provisions for risks and charges

In 2016 net provisions were a positive €7.1 million, compared with a negative €0.2 million in 2015, mainly reflecting the reversal of the earlier provision in respect indemnifications associated with the disposal of BCC Vita, as the basis for a possible liability no longer exists.

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

Net losses on impairment of loans and other assets amounted to €17.1 million and include writedown of equity securities (€3.8 million) and units in collective investment undertakings (€9.7 million on the Fondo Atlante and €5.6 million on real estate funds), as well as contributions to the mutual bank deposit guarantee fund for the rescue of mutual banks (€2 million).

Writebacks of loans amounted to €4.6 million, mainly reflecting the collection of the receivable in respect of the Islandic bank Landsbanki Island Hf, which had been fully written down in previous years.

Profit (loss) from equity investments

In 2016 the item amounted to a loss of €1.9 million and reflected losses for the year posted by Ventis, BCC Retail and M-Facility.

Net profit (loss) for the period

Net profit for the year, including the positive change associated with the consolidated taxation mechanism and the ACE benefit, amounted to **€21.1 million**.

5. DEVELOPMENTS IN GROUP OPERATIONS

The consolidated balance sheet and income statement report the Iccrea Group's results for the period ended December 31, 2016.

The following table shows the composition of **consolidated assets**:

€/thousands	Dec. 31, 2016	Dec. 31, 2015	Change
Due from banks	21,152,194	20,230,772	921,422
Loans to customers	13,674,256	13,286,555	387,701
Financial assets:			0
- held for trading	391,281	377,223	14,058
- at fair value	14,559	15,121	(562)
- available for sale	5,247,279	6,810,530	(1,563,251)
- held to maturity	4,738,609	6,491,581	(1,752,972)
- hedging derivatives	17,773	14,807	2,966
- value adj. of hedged assets	(348)	932	(1,280)
Equity investments	102,285	89,068	13,217
Property and equipment	701,380	660,071	41,309
Intangible assets	38,870	44,278	(5,408)
Tax assets	343,170	283,928	59,242
Other assets	433,491	399,504	33,987
Total assets	**46,854,799**	**48,704,370**	**(1,849,571)**

Consolidated assets at December 31, 2016 totaled €46.8 billion, a decrease of €1.8 billion (-3.8%) from December 31, 2015. The change with respect to the previous year is mainly attributable to:

- an increase in amounts due from banks (+€921 million, +4.5%) associated with loans to mutual banks in pool collateral transactions the increase in the reserve requirement with the central bank;
- an increase in loans to customers (+€388 million, +3%), reflecting the acquisition of Crediveneto by Banca Sviluppo;
- a reduction in AFS financial assets (-€1.6 billion, -23%) due to the sale and measurement of government securities, with the realization of capital gains, and HTM financial assets, and the redemption of securities during the period (-€1.8 billion, -6%).

At December 31, 2016 financing granted to the mutual banks under the pool collateral mechanism, such as advances received from the ECB with refinanceable securities as collateral, came to €19.7 billion (of which €4.8 billion in respect of financing provided through TLTRO-II) in exchange for collateral securities with a total fair value, net of the haircut, of €22.6 billion.

As regards credit quality, net impaired assets with customers amounted to €1.42 billion (€1.3 billion at December 31, 2015) in line with the previous year), equal to 10.39% of total lending (10.47% at the end of December 2015). The ratio of net bad debts to loans was 3.67% (3.43% at December 31, 2015), while the ratio of net positions unlikely to be repaid to loans was 6.19% (6.52% at December 31, 2015).

Gross impaired assets amounted to €2.57 billion, an increase of €182 million on the previous year (€2.39 billion). The ratio of gross impaired assets to loans was 17.2% (16.71% at December 31, 2015).

The coverage ratio for impaired assets was 44.7%, an increase of 3 percentage points on the 41.7% registered at December 31, 2015. The coverage ratio for bad debts amounted to 59.9%, an increase of 3 points on the 56.9% posted at December 31, 2015, while that for positions unlikely to be repaid was 31.5%, an increase on the previous year (30.7%).

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.

The portfolio of financial assets available for sale mainly includes government securities and non-controlling interests.

The portfolio of financial assets held to maturity contains listed government securities that the Company has the intention and ability to hold to maturity since they are financed by specific initiatives of like maturity.

Equity investments not classified as AFS comprise interests in associated companies and amounted to €102.3 million (€89.1 million at December 31, 2015), with the increase mainly reflecting capital payments to BCC Vita (€15 million), dividends paid by the company (€3.8 million) as well as other changes in the equity of associated companies.

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).

In implementation of a reorganization of the Group's investments, Iccrea BancaImpresa transferred the units previously held in the closed-end funds Securis Real Estate, Securis Real Estate II and Securis Real Estate III (at book values equal to NAV) to Iccrea Banca.

Intangible assets include €22.6 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 €1 million on December 31, 2015 (€23.6 million) due to the disposal of the Piacenza branch of Banca Sviluppo, which produced a gain of €750 thousand.

Tax assets include current and deferred tax assets and amounted to €344 million (of which €181 million under Law 214/2011), an increase of €60 million on December 31, 2015, the net effect of payment of the balance for 2015 and payments on account for 2016, the transformation of the deferred tax assets of Iccrea BancaImpresa and Banca Sviluppo into tax credits and the estimated tax liability for the period.

Other assets amounted to €320 million, an increase of €24 million on December 31, 2015 (€295 million), mainly reflecting a number of temporary items settled in the first few days of the following month.

Like assets, **consolidated liabilities** also decreased compared with December 31, 2015, as shown in the following table:

€/thousands	Dec. 31, 2016	Dec. 31, 2015	Change
Due to banks	12,722,739	13,381,487	(658,748)
Due to customers	26,829,330	27,629,647	(800,317)
Financial liabilities:			0
- securities issued	4,466,854	4,403,213	63,641
- held for trading	409,617	463,347	(53,730)
- measured at fair value	21,389	437,636	(416,247)
- hedging derivatives	63,318	101,363	(38,045)
Tax liabilities	3,946	28,049	(24,103)
Provisions for risks and termination benefits	106,288	84,244	22,044
Other liabilities	575,550	455,583	119,967
Shareholders' equity	1,655,769	1,719,801	(64,032)
Total liabilities and equity	**46,854,799**	**48,704,370**	**(1,849,571)**

Amounts due to banks (excluding bonds) amounted to €12.7 billion, down 4.9% on December 31, 2015 (€13.4 billion) as a result of repayments of the T-LTRO auctions of the ECB (€6.6 billion), an increase from T-LTRO II (€5.5 billion) and deposits and current accounts of the mutual banks.

Amounts due to customers amounted to €26.8 billion, down 2.9% on the previous year, the net effect of the acquisition of the funding of Crediveneto (about €320 million) and the reduction in repurchase transactions with the Clearing and Guarantee Fund, which are classified under this item.

Securities issued amounted to €4.5 billion, up €64 million on December 31, 2015 (€4.4 billion) due to the acquisition of securities from Crediveneto (€300 million) and other transactions in the period.

Financial liabilities designated as 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.

The composition of **consolidated shareholders' equity** is as follows:

€/thousands	Dec. 31, 2016	Dec. 31, 2015	Change
Share capital	1,151,045	1,151,045	0
Share premium reserve	4,747	4,747	0
Valuation reserves	73,848	108,125	(34,277)
Reserves	389,977	386,623	3,354
Profit (loss) for the period (+/-)	(24,067)	42,372	(66,439)
Equity pertaining to shareholders of the Parent Company	1,595,550	1,692,912	(97,362)
Equity pertaining to non-controlling interests (+/-)	60,220	26,889	33,331
Total shareholders' equity	**1,655,770**	**1,719,801**	**(64,031)**

Shareholders' equity pertaining to shareholders of the Parent Company came to €1.6 billion, a decrease of €97 million from December 31, 2015 (€1.69 billion), due mainly to: the distribution of dividends, the reduction in valuation reserves and the loss for 2016.

The following table reports the **income statement**:

€/thousands	2016	2015	Change
Net interest income	344,639	388,087	(43,448)
Net fees and commissions	192,802	188,616	4,186
Net gain (loss) on trading activities	10,930	22,293	(11,363)
Net gain (loss) on disposals	71,742	116,411	(44,669)
Result of FVO, dividends and hedging	5,060	2,917	2,143
Normalized gross income	**625,173**	**718,324**	**(93,151)**
Net impairment adjustments	(158,972)	(255,719)	96,747
Net income (loss) from financial operations	**466,201**	**462,605**	**3,596**
- personnel expenses	(215,845)	(191,838)	(24,007)
- other administrative expenses	(319,852)	(289,752)	(30,100)
Depreciation, amortization and provisions	(37,204)	(35,849)	(1,355)
Net other expenses/income	95,711	86,944	8,767
Total operating expenses (net of income)	**(477,190)**	**(430,495)**	**(46,695)**
Operating result	**(10,989)**	**32,110**	**(43,099)**
Fair value measurement of property and equipment	(34,803)	(12,590)	(22,213)
Profit (loss) from equity investments	4,445	6,079	(1,634)
Profit (loss) before tax on continuing operations	**(41,347)**	**25,599**	**(66,946)**
Income taxes	19,654	19,878	(224)
Net profit pertaining to non-controlling interests	2,374	3,105	(731)
Net profit pertaining to the Iccrea Group	**(24,067)**	**42,372**	**(66,439)**

Developments in performance, as reflected in a comparison of the main profit and loss aggregates with the figures for the previous year, reflect the presence of a number of non-recurring events that adversely affected the results of the Group, which amounted to a loss of €24 million (a net profit of €42.4 million in 2015). These included:

- *contributions to the National Resolution Fund* (BRRD) totaling €69.4 million. The contribution includes €23 million in ordinary contributions for 2016 and €46 million in an additional extraordinary contributions called in by the Bank of Italy in its notice of December 29, 2016;
- *costs for the solidarity fund* totaling €26 million in respect of 93 employees who voluntarily opted to participate in the solidarity mechanism. Together with other measures impacting labor costs, this will permanently reduce the Group's administrative expenses;
- *impairment* of €9.7 million recognized on the units of the Fondo Atlante as a result of the decline of about 30% in the fair value of the shares of Popolare di Vicenza and Veneto Banca.

Gross income reflected the following developments:

- net interest income amounted to €344.6 million, down €43.4 million (-11%) on the previous year (€388 million), mainly reflecting the decrease in the volume of assets and developments in market interest rates, with a consequent impact on the margin on the securities portfolio;
- net fee and commission income amounted to €192.8 million, up €4 million (+2.2%) on the previous year (€188.6 million), mainly attributable to the acquisition of Crediveneto;
- the net gain on trading activities amounted to €10.9 million, a decline from the previous year (€22.3 million) that reflected the contraction in operations in securities and charges on derivatives used to hedge Brexit risk;
- gains from disposals amounted to €71.7 million, reflecting:
  - the sale of shares of Visa Europe, with a capital gain of €45.8 million (in 2015, a gain of €114 million was posted following the disposal of ICBPI);
  - gains on the disposal of AFS securities (€37.5 million);
  - losses on the repurchase of previously issued securities (€3.7 million);
  - losses on the disposal of loans (€7.9 million);

The result of exercising the fair value option (FVO), a positive €2.1 million, mainly reflects the accounting effect on the structured liabilities of Iccrea Banca of developments in credit spreads.

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

- personnel expenses amounted to €216 million, an increase of about €24 million compared with the previous year, mainly due to provisions to the solidarity fund (€26 million) and the acquisition of Crediveneto employees (€5.5 million). Excluding these events, costs were reduced by about €7 million thanks to the rationalization measures approved by the Group (reduction in bonuses for executives and overtime hours);
- other administrative expenses amounted to €320 million, up €30 million on 2015, reflecting the acquisition of Crediveneto (€6 million) and various Group projects (the new information system of Credito Consumo, migration of BCC Factoring to new IT outsourcer, IT development and implementation at Iccrea Banca). BRRD costs rose by about €2 million on 2015.
  The *net loss on the impairment of loans and other*

assets amounted to €193.8 million, a decrease on the previous year (€268 million), when the measurement criteria for the lease portfolio were revised. In 2016, writedowns on the AFS portfolio amounted to €13.5 million (for the impairment of Cattolica and Fondo Atlante), while writedowns of units in real estate collective investment undertakings totaled €34.8 million (due to the impairment of the funds' assets).

The cost/income ratio at December 31, 2016, adjusted for the increased costs for BRRD compliance and early termination incentives, was 61.1% (60% at December 31, 2015).

With regard to capital, the following table reports the composition of **consolidated own funds** at December 31, 2016:

Capital and capital ratios - €/thousands	Dec. 31, 2016	Dec. 31, 2015	Change
- Share capital	1,151,045	1,151,045	-
- Share premium reserve	4,747	4,747	-
- Treasury shares	(30,590)	(8,004)	(22,586)
- Earnings reserves	393,602	378,558	26,719
- Net profit for the period	(12,786)	28,450	(41,236)
- Other comprehensive income	74,027	106,700	(32,673)
- Prudential filters on AFS assets/Deductions	4,106	(53,416)	57,522
- Goodwill	(17,346)	(18,331)	985
- Deductions (DTA for tax loss and ACE benefit)	(33,229)	-	(33,229)
- Intangible assets	(7,107)	(11,347)	4,240
- Own credit risk	(3,058)	(1,838)	(1,220)
- Non-controlling interests	31,928	10,507	21,421
Common Equity Tier 1 (CET1 ratio)	**1,555,339**	**1,587,071**	**(20,057)**
Additional Tier 1 (AT1)	5,837	-	5,837
Tier 1 (T1)	**1,561,176**	**1,587,071**	**(14,220)**
- Eligible subordinated loans and eligible AFS reserves	141,599	124,620	16,979
Tier 2 (T2)	**141,599**	**124,620**	**16,979**
Total own funds	**1,702,775**	**1,711,691**	**2,759**

Common Equity Tier 1 ("CET1") at December 31, 2016 amounted to €1,555 million, down €31.7 million on December 2015 as a result of:

- the acquisition of own shares – following the withdrawal of shareholders following the merger– and the sale of part of the own shares held by Banca Sviluppo (-€22.5 million);
- the loss for the year, included in own funds for entities in the scope of consolidation (€12.8 million), compared with the net profit posted the previous year (€28.5 million);
- the deduction of €33 million from deferred tax assets recognized for the consolidated tax loss and for the ACE benefit;
- the inclusion in non-controlling interests of €30 million in respect of the eligibility for inclusion of 70% of the capital increase of Banca Sviluppo reserved for the mutual banks, in application of CRR rules.

Total own funds amounted to €1,703 million (€1,712 million at December 31, 2015), a decrease of €9 million reflecting the net effect of the reduction in CET1, the increase in Tier 1 (T1) and the increase in Tier 2 (T2) following the merger of Iccrea Holding and Iccrea Banca, owing to the subordinated instruments issued by Iccrea Banca and now fully eligible for inclusion.

Risk-weighted assets (RWA) at December 31, 2016 amounted to €12.9 billion, an increase of €85 million on December 31, 2015 (€12.8 billion), reflecting the net effect of a reduction in the exposure to credit risk, securitizations and the CVA (€15 million) and an increase in the exposure to market risks (€84 million) connected with interest rate derivatives and to operational risks (€15 million).

RWA - €/thousands	Dec. 31, 2016	Dec. 31, 2015	Change
Credit risk, securitizations and CVA	11,537,094	11,552,087	(14,992)
Market risk	254,550	169,911	84,639
Operational risk	1,131,550	1,116,250	15,300
Total RWA	**12,923,194**	**12,838,248**	**84,947**

As a result of these developments, at December 31, 2016 the **Common Equity Tier 1 ratio ("CET 1 ratio")** was **12.04%** (12.36% at December 31, 2015), greater than the 9.25% required under the SREP **for 2016**.

The **Total Capital Ratio (TCR ratio)** amounted to 13.18% (13.33% at December 31, 2015).

Capital ratios	Dec. 31, 2016	Dec. 31, 2015	Change
CET 1 ratio	12.04%	12.36%	-0.32%
Total Capital ratio	13.18%	13.33%	-0.15%

6. DEVELOPMENTS WITH GROUP COMPANIES

Iccrea BancaImpresa S.p.A.

The 2016 financial year was characterized by significant subsidies and fiscal opportunities. The Stability Act included a series of fiscal measures aimed at providing incentives for investment in capital goods, including finance leasing, executed during the year.

As at December 2016, new lending by the bank, including lending, guarantees and the international segment, came to about €1.8 billion, an increase in value of 17.7% from the prior year and of 21.8% in terms of number of transactions.

Developments in lending involved:

- leasing, net of corporate finance transactions, with new contracts in the amount of €849.6 million (+19.8%);
- ordinary lending, net of corporate finance transactions and the international segment, came to €548.8 million for growth of 4.4%;
- corporate finance, in the amount of €208.3 million, increased by 36.5% due mainly to increases in the acquisition finance, project finance, and other corporate finance segments;
- the international segment, at €129.3 million, increased by 72.4% to reinforce consulting and financial support for internationalization efforts in enterprises.

Developments in outright lending were accompanied by an increase in guarantees, in the amount of €60.3 million.

Compared with total lending, leasing, net of corporate finance business, accounted for 47.3% of the Bank's volumes of new lending.

According to Assilea figures for 2016, Iccrea BancaImpresa had an average market share of 5.21% to rank in sixth place among leasing companies.

Compared with the market, the bank posted faster growth in the equipment, automotive, and industrial vehicle segments. Real estate declined at a faster rate than the market average.

In April 2016, Iccrea BancaImpresa signed the convention with the Ministry for Economic Development, ABI and Cassa Depositi e Prestiti for the management of subsidies for the purchase of capital goods by SMEs.

Also in 2016, as a bank authorized by the Ministry of Agricultural Policy and a participating lender in the agreement with Cassa Depositi e Prestiti, Iccrea BancaImpresa, in a pool arrangement with the mutual banks, signed 7 agreements with leading Italian agricultural and food product for a total of over €200 million in investments.

Derivatives operations, which are exclusively focused on hedging customers' interest rate risk, both on direct financing by the bank and financing provided by the mutual banks, registered an increase of 47.7% in hedged notional amount compared with 2015. The net margin, represented by commissions received, increased by 62%.

Within the consulting and operational assistance activities offered to firms in accessing the main subsidy laws, operations expanded by about 37% on 2015.

Overall, in 2016, of total new lending of Iccrea BancaImpresa by value, 45.3% was generated in the northern Italy mutual bank area, and 36.6% in central-southern Italy mutual bank area, with 14.6% by the SF&BA area and 3.5% by the Vendor area. More specifically, as regard the Vendor Area, which was established in 2015, operations increased by 28.6% compared with the previous year.

The bank closed 2016 with overall gross bad debts of €919 million, up 19% compared with 2015. The coverage ratio for bad debts also increased, going from 53.8% at the end of 2015 to 57.4% at the end of December 2016.

Net bad debts totaled €391.4 million, accounting for 4.93% of total lending (4.43% in 2015).

Gross exposures unlikely to be repaid came to €1,024.5 million at December 31, 2016, a decrease of 4.7% on the previous year. Their coverage ratio remained high, going from 30.0% in 2015 to 30.4% in 2016.

Net exposures unlikely to be repaid amounted to €712.9 million, down 5.3% on 2015. The ratio of net exposures unlikely to be repaid to total lending declined from 9.4% at December 31, 2015 to 9.0% at the end of 2016.

The net cost of risk management in 2016 amounted to €123.3 million (€231.1 million in 2015.).

The assessment of the portfolio of performing loans at December 31, 2016 required a collective provision of €47.5 million, compared with the €47.3 million recognized in 2015.

Funding, which is centralized with the Parent Company, Iccrea Banca, amounted to €10 billion at the end of 2016. Funding efforts focused almost exclusively on short-term lines of credit and medium and long-term credit granted by Iccrea Banca. Part of the new resources (€590 million) came from the allocation of funds from the T-LTRO 2 operation.

A new securitization of performing lease receivables was carried out in 2016, generating new medium/long-term funding totaling €545 million. The operation also involved the issue of, among others, a class of senior notes with a nominal value of €202.3 million subscribed by the bank. Those securities are eligible for refinancing transactions with the European Central Bank.

With regard to financial investments, Italian government securities (Treasury bonds and zero-coupon Treasury credit certificates) held to maturity amounted to a nominal €2,293 million at December 31, 2016, a decrease from the €3,792 million posted at the end of 2015. The exposure at the end of December included securities maturing at short term. They were acquired as part of an investment strategy aimed at generating income to be used to reduce the cost of funding (enabling lending rates to be more competitive) and to support the profitability of our core corporate lending business.

At December 31, the Bank's loan portfolio had contracted by 1.2% compared with the end of 2015, reflecting the persistence of a challenging market environment characterized by weak demand.

The composition by type of loans to customers at December 31, 2016, shows that leasing accounts for 52.3% (compared with 66.1% in 2015) and other forms of lending for 47.7% (compared with 33.9% in 2015).

At December 31, 2016, the Bank posted a loss before tax of €37.5 million, compared with a gross loss of €120.7 million the previous year. The net loss after tax for 2016 amounted to €28.6 million, compared with a net loss of €80.3 million posted in the previous year.

The positive sign for taxes mainly reflected the following factors:

- the recognition of the income (about €8.1 million) from the consolidating company as a result of the transfer of negative taxable income, which can be immediately be recovered under the consolidated taxation mechanism if there is positive consolidated taxable income;
- the recognition of deferred tax assets in respect of the Allowance for Corporate Equity benefit for 2016 (about €3.8 million).

BCC Lease S.p.A.

For BCC Lease, 2016 was an especially important year. In addition to engaging in its ordinary business with results improving sharply, the company also completed three projects that represent major milestones for its future.

More specifically:

- in the early months of the year, the company received authorization to operate as a Banking Act Article 106 intermediary in accordance with the provisions of the new Consolidated Financial Companies Act;
- it completed the migration of its main information system to a new version (Liscor 3000);
- it launched a new scoring system developed by an internal working group, with a significant increase in the number of transactions processed and approved.

Again in 2016 the company was a hub for small ticket leasing within the Group and the Italian market.

In addition to confirming its position as a leading player of Italian origin in operating leases and small-ticket equipment leasing, where the company has already been operating for some years now with a "vendor" approach (directing its activities to support sellers of equipment), last year also saw the expansion of its targeted lending business, thanks in part to the exit of a number of consumer credit companies from this segment.

The overall leasing market showed substantial signs of recovery in 2016, with the contribution of the especially positive impact of a number of subsidy laws, such as the "Sabatini-ter Act" program and the "super-depreciation" benefit.

The year ended with 15,530 new contracts with a value of €185.3 million, compared with 14,582 contracts and a value of €148 million in 2015, an increase of 6% in number and 25% in value.

The largest increases came in auto leasing and vendor finance leasing, which compared with operating leasing was driven by the "super-depreciation" benefit noted above.

New contracts taking effect numbered 14,642 with a value of €147 million, compared with 12,975 and €125 million the previous year. The increase of about 18% was greater than the budget forecast.

With regard to lending:

- gross loans to customers amounted to €343.1 million at the end of the year, compared with €289.6 million in 2015, an increase of 18.6%;
- net loans amounted to €320 million, compared with €268.1 million in 2015.

At the end of 2016, gross impaired positions amounted to €33 million, compared with €33.7 million the previous year.

The slight decrease in value despite the substantial increase in total credit was due to the assignment of receivables and the good trend of new positions. The ratio of impaired positions to total lending therefore improved significantly, falling from 11.6% to 9.6%.

The ratio of net impaired positions to total loans improved from 5.4% to 3.8%.

The coverage ratio rose to 63.1%, compared with 56.4% at the end of 2015.

The rising trend in bank borrowing (all intercompany) has essentially paralleled that in lending, increasing to €290.5 million.

Net interest income rose 26% from €14.1 million in 2015 to €17.8 million in 2016.

Operating expenses amounted to €6.7 million, compared with €6 million in 2015, a rise of about 12%, which is significantly less than the increase in revenues, despite the start of amortization of software licenses for the new information system. They include €2.5 million in personnel costs for employees and seconded personnel and €4.1 million in other administrative expenses, plus €113 thousand in amortization.

"Other operating expense and income" showed net income of €3.3 million, a decrease on the previous year (€3.5 million). The cost-income ratio fell sharply compared with 2015, going from 35.3% to 32.1%.

Profit before tax amounted to €6.9 million, compared with €3.6 million in 2015, an increase of 85%, significantly greater that the projection formulated during the planning stage.

Profit after tax totaled €6 million, compared with €2.7 million in 2015 (+123%).

BCC Factoring S.p.A.

The year 2016 was one of sharp discontinuity and change for BCC Factoring, the consequence of extraordinary events that in addition to impacting the companies operations and profitability also prompted a review of the positioning that the company will have within the new Mutual Banking Group.

The company was entered in the special register referred to in Article 106 of the Consolidated Banking Act following the certification procedure conducted by the Bank of Italy. Entry in the Article 106 register in turn involved the implementation and launch of a series of control and reporting activities, previously not mandatory, that required the significant involvement of internal operational staff.

More specifically, BCC Factoring implemented a project for the migration of IT systems to the new outsourcer, Arcares S.p.A..

From a strictly commercial point of view, despite the operational difficulties linked to the planning issues, 2016 saw the confirmation of the dynamism of the company, both in terms of its positioning in this specific sector and in the primary market of the mutual bank system, posting an increase in volumes over the previous year (in terms of turnover, outstanding and investment), although this only partly offset the loss of profitability associated with the contingent narrowing of margins.

Turnover exceeded the targets set for this aggregate, rising 6.3% over 2015 to €1,553 million.

Again in 2016 assignments mainly involved non-recourse transactions (65% of turnover) rather than with-recourse transactions (35% of turnover), confirming the general preference of industrial enterprises for that form of assignment.

At December 31, the outstanding amounted to €641 million.

Total loans at December 31, 2016 amounted to €542 million. Exposures exceeding the limits set by supervisory regulations were secured by sureties issued by the Parent Company.

Net interest income amounted to €4.8 million, down on the €6.2 million posted in 2015, representing a decline of 21.9% for the year as a result of the steep fall in average interest rates and spreads, a trend that had already emerged the previous year.

Gross income reflected developments in net interest income, totaling €8.5 million.

The ratio of non-performing positions to total lending amounted to 11.5% on a gross basis (6.3% on a net basis), compared with 11.73% on a gross basis (6.4% net) in 2015.

The cost of risk remained high and slightly above projections but consistent with the risk level of the business.

Net writedowns totaled €3.7 million, with an additional €0.8 million in provisions for risk and charges, for a total of €4.5 million. This compares with a total of €3.5 million in 2015 (including the loss on the disposal of the NPLs).

The valuations of the portfolio are consistent with the expectations for and timing of realization.

The coverage ratio for bad debts and positions unlikely to pay amounted to 82.5% (76% in 2015), while that for bad debts alone rose to 87.3% (83.6% in 2015); the coverage ratio for positions unlikely to be repaid was 68.4% (46% in 2015).

Operating expenses increased, rising to €8.3 million from the €6.4 million posted in 2015, an increase of 28.8%.

While personnel expenses declined, the ordinary components of other operating expenses generally remained at a normal level. 2016 was affected by the migration to the new IT outsourcer, with recognition in the year of costs of €800 thousand, as well as associated consulting costs and costs for the termination of the contract with the previous outsourcer (totaling about €500 thousand), which are non-recurring.

BCC CreditoConsumo S.p.A.

On April 29, 2016, the Bank of Italy issued the measure authorizing the company to provide financial services in accordance with Article 106 of the Consolidated Banking Act, effective retroactively as of April 4, 2016.

In 2016, the company continued distributing consumer credit products primarily through the branches of the mutual banks and, to a lesser extent, online. At December 31, 2016, there were a total of 306 participating mutual banks and about 3,500 active branches.

New lending for the year came to €424 million.

At December 31, 2016, lending totaled €916.2 million and was made up almost entirely of consumer credit for customers (€915 million), with the remainder being loans to banks and other lending.

Debt totaled €849 million in the form of funding provided by the Parent Company, Iccrea Banca (€671.5 million), and by AGOS Ducato (€174.9 million, generated mainly by way of the funding agreement), as well as other amounts payable to customers (€2.6 million).

Over the years, net interest income has increased significantly as a percentage of gross income, going from 31% in 2011 to 95% in 2016, in confirmation of the fact that fee and commission income is an increasingly less significant portion of the company's revenues as compared with its core business of consumer credit.

At December 31, 2016, net interest income totaled €41.2 million, compared with €36.8 million in 2015. Gross income came to €43.6 million, compared with €41.6 million in 2015.

Administrative expenses amounted to €19.3 million (€14.3 million in 2015), including €3.5 million in personnel expenses and €15.8 million in other administrative expenses. The cost of risk for 2016 came to €13.44 million, compared with €17.3 million for the previous year.

Gross operating income totaled €14 million, which, after taxes for the year in the amount of €4.2 million, produced net income of €9.8 million.

BCC Solutions S.p.A.

The company's financial performance at December 31, 2016, showed essentially linear growth in both costs and revenues.

Net income as at December 31, 2016, came to €1.9 million (+233% over 2015).

This performance reflects the changes in the company's business model, and specifically:

- expansion of the operating services provided by BCC Solutions in application of the new cost management model of the Iccrea Banking Group, under which the company is responsible for planning and management of general services and logistics for all group companies;
- application of a new cost allocation and pricing model for the operating services provided;
- no change in depreciation and amortization due to suspension of the costs related to the restructuring and adaptation of the Lucrezia Romana offices;
- expansion of the services provided and resources managed by the Group procurement unit;
- establishment and centralization within BCC Solutions of a new back office service (divided into three areas: Procurement, Administration and Registry) for management of the supply chain for Iccrea Banking Group companies;
- increase in employees seconded to BCC Solutions with an associated increase in revenues from the Iccrea Banking Group companies.

At the operating level, the period showed an increase in operating costs (+24.2%) and a corresponding increase in revenues (+27.6%), resulting in a 39.8% increase in gross operating income.

The growth in costs was due to the policies to centralize Group procurement with the company.

The finance costs of €0.9 million represent an improvement of 2.6% compared with 2015 due to the normal reduction in interest on long-term borrowings. The increase in non-current assets from €75.8 million in 2015 to €84.4 million in 2016 (+11.3%) concerns the investment in adding stories to the Lucrezia Romana office building. Capital expenditure in 2016 totaled €11 million, 82.4% of which was classified as assets under construction and payments on account in respect of the start of projects and other activities that will be completed during the following year. Funds spent on plant, which represent 10.1% of the total at €1.2 million, concerned audio and video systems as well as systems related to the construction of underground parking in the amount of €0.9 million.

Working capital decreased following a decrease in trade receivables and a corresponding increase in trade payables. This freed up financial resources, which were allocated to cover investments made during 2016.

Banca Sviluppo S.p.A.

In 2016, following the extraordinary measures in which Banca Sviluppo was involved, it became necessary to increase share capital by €100 million, €60 million of which called in by October 2016 and €40 million to be called in within five years.

The capital increase was offered to all mutual banks given that the Parent Company had waived its pre-emption rights, and the operation was completed effective November 1, 2016. A total of 16,528,775 shares were subscribed and paid in by 236 mutual banks for a total of €41.3 million. The Parent Company also made a capital contribution in the amount of €10 million.

The year 2016 featured the following extraordinary transactions:

- acquisition of the assets and liabilities of BCC Crediveneto in receivership;
- acquisition of the assets and liabilities of BCC Brutia in receivership;
- acquisition of a portfolio of non-performing loans from Federlus Factoring;
- sale of the business units consisting in the branches in Piacenza, Fiorenzuola, Finale and Cefalù;
- sale of a portfolio of non-performing loans.

Given the increasing size and complexity of operations, the company was involved in a number of major organizational and operational projects, including:

- implementation of the cross-functional model of credit monitoring;
- implementation of the system of line controls;
- continuation of the company's reorganization and extension of the hub-and-spoke distribution model to the recently acquired areas;
- branch evaluations and related assessment of the feasibility of selling certain branches.

The extraordinary operations described above have led to significant growth in volumes managed by the bank. More specifically:

- average direct funding increased 35.7% to €2,142 million;
- average lending increased 52.5% to €1,058 million.

At December 2016, 32.9% of total funding was concentrated in the region of Romagna; 32.3% was in Veneto, and the remaining 34.8% was distributed in the remaining regions. As for lending, 37% was concentrated in Veneto, 34.2% in Romagna, and 28.8% in the other regions of Italy.

Total indirect funding came to €666.9 million at December 31, 2016, increasing by €298 million from 2015. More specifically, assets under management totaled €397.9 million, compared with €180 million in 2015, while assets under administration came to €269.9 million, compared with €188 million in 2015.

Net interest income for 2016 totaled €33.6 million, increasing 25% from the previous year.

Gross income came to €56 million, an increase of 18% over 2015.

Administrative expenses increased 39% due to the acquisitions of banking operations during the year and those that were carried out in 2015 and fully entered service during the year under review.

Writedowns and writebacks of loans totaled €701 thousand, decreasing from 2015 and reflecting total new writedowns of bad debts in the amount of €20.3 million, net of writebacks due to collections on bad debts, defaults, and the release of collective adjustments in the amount of €19.6 million.

Net income for the year came to €1.06 million, decreasing from the €1.76 million posted in 2015.

BCC Gestione Crediti S.p.A.

BCC Gestione Crediti supports the mutual banks and the companies of the Iccrea Group in managing problem loans.

Net income for 2016 came to €399 thousand.

The value of production totaled €14.4 million, increasing 18.5% from the previous year.

Within this aggregate, fee and commission income came to €11.2 million, increasing by about €400 thousand compared with 2015 due mainly to an increase of €322 thousand in collection fees. Other gains and income in the amount of €3.3 million increased by about €1.8 million due to increases in the recovery of legal fees related to the Deposit Guarantee Fund portfolios managed, the recovery of expenses for seconded employees, and the increase of about €600 thousand in gains on the sale of a portfolio of bad debts owned by the company.

The cost of production totaled €13 million, up 13% over 2015 due mainly to an increase in legal costs and other costs for managing the portfolios of the Deposit Guarantee Fund. Personnel expenses came to €4 million, essentially unchanged compared with the prior year.

Net impairment of receivables due to the deterioration of current assets, in the amount of about €616 thousand, is attributable to specific impairment losses on bad debts.

Finance costs include interest paid on Iccrea Banca financing in the amount of about €31 thousand. This financing was provided to support company operations for the non-recourse purchase of bad debts (backed by the Deposit Guarantee Fund) and for the purchase of a 100% interest in the former Federlus Factoring, now FDR Gestione Crediti S.p.A.

Total assets in the amount of €10.5 million increased by €1.2 million compared with the previous year, due mainly to the increase in receivables for fees billed on management services. This increase was matched by an analogous change in liabilities.

BCC Sistemi Informatici S.C.p.A.

In 2016, BCC Sistemi Informatici (BCC SI) took the form of a joint-stock consortium as a necessary step in preparing for the future. On December 12, BCC SI completed the merger with ISITEL S.r.l. aimed at acquiring a software platform and related know-how to be integrated into the SICRA system in the areas of CRM and advanced financial consulting.

In terms of operations, at the end of 2016 BCC SI carried out actions involving the information system as requested by the mutual banks, particularly in the following areas: budgeting, bad debts, credit evaluation, workstation virtualization, system registry, financial consulting, biometric signatures, enterprise dashboard, commercial profiles, and product management (GESPRO).

With regard to performance, service levels remained amply and systematically within the terms of the SLAs.

On the balance sheet, new investments in non-current assets totaled €6.4 million, increasing by about €1.4 million compared with the previous year.

The year closed with net income of €201 thousand.

The increase of about €1.8 million in the value of production to €83.6 million was mainly due to the increase in other gains and revenues related to income on penalties on customers moving to other information systems, the recovery of expenses on seconded personnel, revenues from services, and capitalized internal work.

At the same time, decreases in revenues concerned fees on basic information systems in the amount of €838 thousand as a result of reductions in Lombardy, Tuscany and Veneto, which were only partially offset by the increase for Banca Sviluppo following the acquisition of Crediveneto.

Revenue increases were registered for consulting for startups and mergers (€925 thousand), the OIO IT infrastructure provided to Iccrea Banca (€398 thousand), Banca Elettronica (€406 thousand), data transmission services (€287 thousand), and other services, mainly inquiries (€215 thousand).

The increase of about €2 million in the cost of production, which totaled €82.7 million, was due entirely to personnel expenses, which increased by €3.5 million as a result of participation in the employment and wage support fund for mutual-bank employees. This was only partially offset by reductions in depreciation (€321 thousand), amortization (€512 thousand), and the impairment of non-current assets (€327 thousand) and receivables (€23 thousand).

Costs for services increased slightly, by €364 thousand, as did leasehold costs, in the amount of €114 thousand.

Total financial income and expense decreased by €133 thousand to €149 thousand.

Taxes totaled €831 thousand.

BCC Risparmio & Previdenza SGRpA

Total assets managed or placed by BCC Risparmio & Previdenza came to €12.7 billion, for growth of about €2 billion compared with the previous year. Net funding totaled €1.8 billion.

Assets under management with the company break down as follows:

- 12.66% in investment funds;
- 21.05% in coupon funds;
- 3.51% in supplemental pension funds;
- 20.73% in portfolio management products;
- 42.05% in third-party SICAVs.

Details on the various lines of business are provided below.

Investment funds

Funding for 2016 showed net redemptions of €43.8 million. Assets managed in funds and funds of funds at year end totaled €1.6 billion.

Coupon funds

The company has launched 6 new funds that have attracted a great deal of attention, receiving a total of €177 million in funding. Total assets in coupon funds at the end of 2016 came to €2.7 billion.

Supplemental pension funds

In 2016, the company confirmed the positive trend in funding in supplemental pension funds, attracting net funding of €85.2 million for total assets under management of €447 million.

Securities investment products, institutional asset management, insurance asset management

Net funding was a positive €122.6 million, divided into retail (down €23.7 million), institutional (up €20.6 million) and insurance (up €125.8 million) segments. Assets under management at year-end totaled €2.6 billion.

Third-party SICAVs

Total assets placed at year end came to €5.3 billion, with net funding totaling €1.5 billion. In 2016, the company launched 4 new funds in collaboration with selected partners for total funding of about €1.1 billion.

Total assets placed or under management went from €10.7 billion in 2015 to €12.7 billion in 2016.

The company closed 2016 with net income of about €8 million.

Within this general result, fee and commission income went from €94.3 million in 2015 to €103.3 million in 2016, an increase of 9.5%. The main factors that contributed to this performance were the following:

- a 51% increase in fees and commissions related to the placement of third-party SICAVs, which went from €31.9 million to €48.1 million;
- a 22% increase (€0.8 million) in fees and commissions on pension fund management compared with 2015;
- a significant reduction in performance fees, which totaled €0.43 million in 2016, compared with €8 million in 2015;
- the recognition of new fees and commissions for advisory services with the Multilinea units (managed by BCC Vita) in the amount of €0.2 million;
- virtually no change in management fees on mutual funds, which totaled €46.6 million for the year, and on portfolio management accounts, in the amount of €1.3 million.

Following the increases described above, total management fees and commissions passed on to the mutual banks placing the funds grew significantly, going from €61 million in 2015 to €75 million in 2016, an increase of 22%. Expenses for the year included the cost of labor, which went from €6.4 million in 2015 to €5.7 million in 2016 for a decrease of 11% due to the following factors:

- recognition of costs due to the early retirement of a number of employees for a total of €628 thousand;
- an increase of €181 thousand in costs for employees seconded from other companies of the group;
- the recovery of costs for employees seconded to BCC Retail in the amount of about €1.4 million.

Other administrative expenses, totaling about €10.1 million, increased 34% due mainly to:

- the seconding of personnel from the Commercial & Marketing unit to BCC Retail (effective March 1, 2016), increasing by €1.9 million and partially offset by a reduction in the labor costs. The company maintains full responsibility for budgeting, commercial planning, product development, and marketing and communication;
- the revision of facility management services connected with the workstations at the new Milan

offices in Via Esterle and use of the procurement and back-office services provided by BCC Solutions, for a total increase of €1.2 million.

BCC Retail S.c.r.l.

BCC Retail is the consortium of mutual banks and other Iccrea Banking Group companies that works to optimize operations for its members in order to minimize costs and increase market competitiveness.

BCC Retail's operations concern the following two areas:

- insurance intermediation, whereby BCC Retail acts as a multi-client agent registered with Section A of the Italian Unified Board of Intermediaries under number A000012622;
- commercial promotion related to the bancassurance, asset management and supplemental pension segments. This is done through a commercial network of 23 employees working throughout Italy.

The year closed with a net loss of €1 million due mainly to extraordinary events during the fourth quarter, including the removal of institutional policies of the Group companies from the portfolio (which are now managed exclusively by the broker Marsh under the coordination of Iccrea Banca) and participation in the Solidarity Fund following implementation by the Parent Company of a voluntary termination plan in agreement with the trade unions.

The value of production totaled €4.3 million, an increase of €1.6 million (+62%) compared with the previous year. This increase was mainly due to expansion of the commercial promotion business following the arrival of the asset management commercial network on March 1, 2016. These revenues are connected with the services provided by the various product companies (i.e. BCC Risparmio & Previdenza, BCC Vita and BCC Assicurazioni) and totaled €3.3 million (€1.1 million the previous year).

Revenues from insurance intermediation decreased by €0.5 million, or 37%, from the previous year.

The total cost of production at December 31, 2016, came to €5.2 million, increasing by €2.8 million, or 111%, compared with the previous year.

This increase was due to the following:

- costs for services, which increased by €1.9 million (235%) resulting mainly from the seconding of the commercial network of BCC Risparmio & Previdenza beginning on March 1, 2016, for a total of €1.4 million;
- personnel expenses, which increased by €0.9 million (68%) resulting from both the addition to the workforce of the insurance commercial network beginning on January 1, 2016, and the participation of one employee in the Solidarity Fund.

BCC Vita S.p.A.

On the balance sheet, investments totaled €2.6 billion, an increase of 9.8% compared with December 31, 2015.

Technical reserves came to €2.5 billion, an increase of 8.8% compared with the previous year.

Total premium income came to €318 million, down €233 million from the prior year.

The company closed the year with net income of €9.1 million (compared with €8.4 million at December 31, 2015).

BCC Assicurazioni S.p.A.

Investments for the year totaled €25.8 million, an increase compared with December 31, 2015 (€24.3 million). Gross technical reserves came to €49.2 million, compared with €39.2 million at December 31, 2015.

The company closed the financial year with a net loss of €2.3 million (€18 thousand at December 31, 2015) and premium income of €34.7 million, compared with €32.1 million the previous year (+7.9%).

BCC Accademia ScpA

Investments, including cash and cash equivalents, totaled €2.2 million.

The company closed the year with net income of €8,594 (€71,177 at December 31, 2015).

Hi-MTF S.i.m. SpA

Established in 2007, this company was authorized by CONSOB on January 29, 2008, for the management of multilateral trading facilities.

On February 7, 2008, operations began for the HiMTF market, a multilateral bond market authorized by CONSOB under the legislation introduced by the MiFID and in which Iccrea Banca is a shareholder, along with Banca Aletti, Centrosim, and ICBPI, as well as with Banca Sella as from July 2008.

The year closed with net income of €71 thousand, compared with net income of €87 thousand in 2015. Equity at December 31, 2016, totaled €6.2 million, increasing compared with December 31, 2015, as a result of retained earnings.

Car Server S.p.A.

In 2013, Iccrea BancaImpresa acquired an 11.11% interest in Car Server, the leading entirely Italian-owned company engaged in the leasing of vehicle fleets for businesses. This equity investment in Car Server falls within the scope of efforts by Iccrea BancaImpresa to enhance its offering of automotive financial services (either directly or through its subsidiary BCC Lease). Within the scope of this operation, Iccrea BancaImpresa subscribed a convertible bond in the amount of €5 million.

In 2015, Iccrea BancaImpresa converted this bond to bring its total interest in Car Server to 19.01%.

The company closed 2016 with net income of €7.6 million, surpassing budget forecasts.

The company's equity came to €41.2 million at December 31, 2016 (compared with €39.9 million at December 31, 2015).

M - Facility S.p.A.

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. Transactions between industry players take place on a specific platform managed by Iccrea Banca, which ensures that tour operators receive payment for bookings made by travel agencies that have an account with a mutual bank.

The year ended December 31, 2016, closed with a net loss of €236 thousand (compared with a net loss of €224 thousand at December 31, 2015).

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

RISKS

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

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

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

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

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

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

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

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

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

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

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

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

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

UNCERTAINTIES

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

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

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

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

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

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

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

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

The main regulatory changes that will impact the Group include:

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

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

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

8. 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 of "Technical implementation of the EBA Guidelines on ICAAP and ILAAP information collected for SREP purposes", 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.

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 Group's strategic plan (2017–2019) 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.

This conclusion of overall capital adequacy 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.

The following table, drawing from the capital adequacy assessment analysis, summarizes the overall information on and position of the Group's capital profile with respect to the set of limits/thresholds considered.

Iccrea Banking Group – Capital adequacy at December 31, 2016

	31/12/2016	Threshold	Threshold buffer
CET1 ratio ICAAP 2017	12.04%	9.63%	2.41%
TC ratio ICAAP 2017	13.18%	11.13%	2.05%

Iccrea Banking Group – Prospective capital adequacy (2017-2019) –baseline scenario

	Profile			Limit	Threshold buffer (2019)
	2017	2018	2019		
CET1 Ratio ICAAP 2017	11.45%	11.96%	12.26%	≈9.79%	2.47%
TCR ICAAP 2017	12.43%	12.93%	13.22%	≈11.29%	1.93%

Iccrea Banking Group - Prospective capital adequacy (2017-2019) – adverse scenario

	Profile			Limit	Threshold buffer (2019)
	2017	2018	2019		
CET1 Ratio ICAAP 2017	10.41%	9.95%	9.40%	≈7.52%	1.88%
TCR ICAAP 2017	11.39%	10.91%	10.35%	≈9.52%	0.83%

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 report provides a 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 scenario 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, the Group is in a good liquidity position, which can be summed up as follows:

- the liquidity coverage ratio of 107.21% is higher than the standard minimum regulatory threshold (100% starting in 2018);
- the Group's survival period at December 31, 2016 is greater than 3 months and therefore within the limits established by the Group at the reference date.

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, the Group is in a good funding position that can be summed up as follows:

- the NSFR indicator in 2016 always exceeded the minimum threshold for 2016 (at December 31, 2016 the indicator equaled 95.10% compared with 80%);
- the Group's funding channels are diversified (mainly wholesale) and envisage methods of funding on collateralized markets through the Clearing and Guarantee Fund;
- the Group's funding is composed almost entirely of transactions in euros (99.51%).

The assessments of the entire ILAAP governance system and the management processes found no thematic and analysis areas that present problems or significant deficiencies. Therefore, the internal assessment summary indicates an overall result of "fully compliant".

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 June 23, 2016 concerning the "Assessment of the Recovery Plan of the Iccrea Banking Group" and containing its recommendations based on the assessment it performed of the Group's entire recovery framework.

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, business model and risk strategy, significant legal entities, core business lines, critical functions and internal and external interconnections.
- 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 scenarios used (systemic, idiosyncratic and combined) 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 reorganizing the entire document, the primary changes made to strengthen the new version of the Recovery Plan in 2016 involved:

- more detailed description and disclosure of specific areas requested by the supervisory authority, such as: aspects of the Iccrea Banking Group's corporate structure, the supply model, the procedures for collateral pool operations, the operating procedures for involving the Recovery Committee in the event trigger, early warning and other levels are exceeded;
- alignment of the recovery governance with the new structure arising out of the recent reverse merger and the corporate governance plan;
- strengthening the mechanism for integrating the Recovery Plan and related processes such as the risk appetite framework, business continuity management, strategic planning, ICAAP and ILAAP, etc.;
- reinforcing the overall stress testing framework used by introducing specific assessments of the speed of propagation of shocks associated with the risk variables considered;
- strengthening the communications plan in terms of target audience, channels and communication tools to be used in the event of a full-blown crisis and operating processes for identifying and managing potential negative reactions by the market and stakeholders.

On December 8, 2016 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 stress test and the information received in the course of ordinary supervisory activities.

The ECB required that it maintain a total SREP capital requirement (TSCR) of 9.50%.

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 1.25% for 2017. The Group's OCR for 2017 is therefore 10.75%.

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.

9. INTERNAL CONTROL SYSTEM

The Internal Control System (ICS) of Iccrea Banca and the Group has the following characteristics:

- 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;
- 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 duty:

- 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;
- 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, which the boards of directors of the subsidiaries must in turn approve and apply within their companies;
- 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 requirement;
- 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;
- 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;
- 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;
- 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.

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 interconnections that exists between the different areas monitored.

10. OTHER SIGNIFICANT INFORMATION

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

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

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

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

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

ECB cyber risk inspection

From September 23 to December 2, 2015 the Iccrea Banking Group underwent an inspection by the ECB to assess its ability to identify and detect cyberattacks and to protect the Group from them.

On July 20, 2016 the ECB sent the Group the draft of the conclusions of the inspection conducted and the inspection report. In a letter dated October 10, 2016, the ECB notified the Iccrea Banking Group of its findings during the inspection and its recommendations.

Arising out of this inspection the Group developed and launched the consequent initiatives - some of which had been under way prior to delivery of the inspection results – that required activation of an intensive work program in order to pursue and complete them on schedule (see Make IT).

Some of the compliance measures identified were completed during 2016 and further implementing actions are being developed.

Specifically, in furtherance of the reorganization and rationalization of the Group's IT structure, as well as to simplify its organization and make its governance more effective, in 2016 the following actions were decided and taken:

- strengthening the integrated IT governance, by making the Parent Company's CIO (Chief Information Officer) the General Manager of BCC Sistemi Informatici;
- introducing functional reporting for all BCC Sistemi Informatici structures to the equivalent functions of the Parent Company's IT structure, with particular emphasis on the Information Service and Operation organization units;
- further strengthening of IT governance by reassigning the tasks and responsibilities of the IT organizational units and reinforcing the structure's operations.

Moreover, to enable the completion of the reverse merger between Iccrea Holding and Iccrea Banca, in 2016 the Parent Company temporarily suspended the planned formation of an IT services consortium and the transfer to it of the IT business units of Iccrea Banca and Iccrea BancaImpresa.

Subscription of units in Fondo Atlante

In April 2016, the Board of Directors of Iccrea Holding, after having assessed the Fondo Atlante initiative, a restricted alternative closed-end investment fund managed by Quaestio Capital Management SGR SpA and created to support capital increases and the purchase of NPLs of a number of Italian banks, examined and approved Iccrea Banca formulating a binding commitment to acquire units of Fondo Atlante for a total of €40 million. At December 31, 2016 €32.2 million has been paid. In valuing the investment at the close of the financial year, a loss in value of around 30%, for a total of €9.7 million, emerged.

T-LTRO II

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

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

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

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

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

Plan to reduce personnel expenses

On July 26, 2016 the Parent Company and company trade union representatives signed a tentative trade union agreement to cut labor costs over the 2016–2018 period. The unions subsequently submitted it for ratification to their Assembly, which passed it with a large majority on July 29.

Following ratification the agreement was implemented immediately, with effect from August 1, 2016.

Under the agreement, up to 100 Group employees can draw on the Group's special solidarity fund for voluntary redundancy. The workers who participate can also receive up to 5 years' worth of pension contributions in advance without penalty, a package of health care provisions and insurance and regulatory protections.

The agreement does not affect employees' monthly compensation but rather temporarily recalculates severance benefits (without impacting the supplementary pension contributions) as well as introducing a series of measures concerning overtime, holiday pay, time bank usage and time off in lieu of abolished public holidays.

The variable portion of the compensation of executives and other key managers will be reduced by 50%. It was also proposed that the cut apply in 2016 on a voluntary basis and more than 70% of those eligible agreed to accept the cut.

Starting next year the agreement will reduce labor costs by 10% with limited impact on Group employees' monthly compensation.

A total of 47 employees of Iccrea Banca and the former Iccrea Holding volunteered to draw on the special solidary fund. As a result, a non-recurring expense totaling €14.2 million was provisioned for the entire period covered by the solidarity fund, with the full amount being taken to profit or loss for the year.

Within the Group as a whole, for the 93 voluntary participants, the impact of the measure on profit or loss amounted to €26 million.

Extraordinary contributions to the National Resolution Fund (BRRD)

On December 29, 2016 the Bank of Italy with Measure no. 154733/16, on the basis of Law 208 of December 28, 2015, announced the need for two additional annual contributions for 2016 in connection with the resolution plans for Banca delle Marche SpA, Banca Popolare dell'Etruria e del Lazio Scpa, Cassa di Risparmio della Provincia di Chieti SpA and Cassa di Risparmio di Ferrara SpA. The additional contribution requested amounted to €36.7 million and the payment was made on March 17, 2017 pursuant to Bank of Italy Measure no. 333162/2017 of March 14, 2017.

At the Group level, the contribution to the National Resolution Fund (NRF) was about €70 million, of which €46 million for the extraordinary contributions called up in the December 29, 2016 measure.

With regard to NRF contributions under the BRRD, given that the Iccrea Banca is a second-level bank that provides access to the wholesale market and the ECB's monetary policy instruments, in December 2015 the former parent company, Iccrea Holding, submitted a request to the Bank of Italy asking it to reconsider the criteria used to calculate contributions. Specifically, it argued that the calculation was "unfair" since it did not take account of the fact that collateralized liabilities, by their nature, are secured by the underlying securities pledged as guarantees, nor does it consider that there is essentially duplication of the basis of calculation, which it expressly prohibited in the case of legally recognized groups and is not considered with respect to the mutual bank/Iccrea "system".

In its response, the Bank of Italy said it would consult with the Ministry for the Economy and Finance concerning Iccrea Banca's role with respect the mutual banks, in connection with the amendment of Regulation (EU) 2015/63, scheduled for review in June 2016.

Nevertheless, no change was made and the Bank of Italy announced additional contributions calculated using the same criteria. Iccrea decided to challenge the most recent request for payment of the extraordinary contributions for 2016 before the Regional Administrative Court. It asked that the court refer the matter to the European Court of Justice for a preliminary ruling, pursuant to Article 267 of the Treaty on the Functioning of the European Union, on the interpretation and validity of the applicable EU regulations.

On May 9, 2017 an appeal of the criteria used in calculating the 2015 and 2016 contributions was filed with the Regional Administrative Court.

Launch of the Mutual Banking Group

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

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

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

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

In these last few months, planning has continued, with theme-based projects supported by working groups in which all the mutual banks that will belong to the Group are represented.

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

Ratings

With regard to relations with rating agencies in 2016, the following changes occurred:

- on January 26, 2016 Fitch Ratings downgraded the long-term debt rating to "BBB-" and an "evolving" outlook;
- on December 16, 2016 Standard & Poor's confirmed the medium/long-term debt rating of "BB", with a "stable" outlook;

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

Review of the governance system

The plan for the new Group Parent Company made provided an opportunity to reorganize and rationalize the organizational structure in order to more thoroughly integrate strategic levers and manage/implement them.

The actions taken regarded three areas.

Governance, with the intention of:

- making Group governance, policy and coordinated action more efficient through greater vertical integration within the Parent Company of the strategic levers implicit in critical functions;
- streamlining the Group's company top management to shorten the chain of governance, management and control of activities conducted.

Risk management, in order to consolidate the Parent Company's role in determining the risk propensity of the Group companies.

The organizational structure, with the purpose of:

- rationalizing the organizational structure and further reinforcing the second-level corporate control functions;
- rationalizing and improving the efficiency of a significant portion of corporate processes and procedures.

Planning has involved making changes to internal regulations in a variety of areas, including the following in order of importance:

- the Group's administrative and control model;
- the hierarchy of internal sources of rules;
- the Corporate Governance Rules;
- the rules of the Parent Company's corporate boards;
- the self-assessment process for corporate boards;
- the policy for handling transactions with related parties and conflicts of interest;
- the policy for managing relations between the Board of Directors and senior management;
- the policy for assessing the organizational, administrative and accounting structure of the Group;

- the organizational and functional charts;
- the system of delegated powers;
- general process policies and rules;
- the mapping of corporate processes;
- the governance of reporting flows.

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

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

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

The control system is based upon two primary guidelines.

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

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

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

Transactions with related parties

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

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

Accordingly, in 2016, 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.

The associated schedule also reports equity interests held in the Bank and its subsidiaries by directors, members of the Board of Auditors, the General Manager and key management personnel, either directly or through subsidiaries, trustee companies and other third parties, including those held by spouses who are not legally separated and minor children.

In addition, in 2016, the Bank engaged in intercompany transactions that were deemed mutually financially beneficial and arrived at the applicable terms and conditions in accordance with the principles of substantive fairness inherent in the common goal of creating value for the entire Group.

Information on human resource management and industrial relations

As already mentioned in the section on the "plan to reduce personnel expenses", which the reader is invited to consult for more detail, the proposed labor union agreement, which would reduce labor costs over the three years covered by the 2016-2018 business plan, was signed on July 26, 2016 and subsequently ratified by the majority of the workforce on July 29.

The document was signed by trade unions representing, collectively, 53% of Group employees who are union members, ensuring that it is fully representative and confirms its validity and applicability to all.

Upon ratification the agreement was implemented immediately, with effect from August 1, 2016.

In addition, under the People Care initiatives, there was a significant increase in employees taking advantage of employee welfare programs including flexible benefits, which increase the purchasing power of performance bonuses distributed, and work-life balance, the set of initiatives targeted at employees to improve organizational wellbeing and work-life balance.

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

In 2016 the Group introduced a comprehensive training program that, after receiving input from the professional families on their needs, provided all employees with a training plan covering all the relevant areas (conduct, technical and specialized skills, mandatory regulatory compliance, IT, foreign languages, etc.).

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

In 2016 implementation of Job Map, the Group's professional development platform, was completed. It is used to map all the professional families and positions within the Iccrea Banking Group (except for the commercial area, which is currently being reorganized).

Research and development

The Group did not engage in any research and development in 2016.

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

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

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

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

<u>Financial indicators:</u>

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

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, 2015 the Company held 8,495 shares of the former Iccrea Holding SpA. They were sold on March 24, 2016 for €442,929, in line with their carrying amount.

At December 31, 2015 the subsidiary Banca Sviluppo held 147,665 shares of the parent company Iccrea Holding for a total value of €7,643,849. These shares were acquired as part of the sale of the assets and liabilities of Banca Romagna Cooperativa. In 2016 it also acquired 143,463 shares for a value of €7,482,192 as a result of the transfer of the assets and liabilities of Crediveneto.

During the year the subsidiaries sold 276,370 shares for €14,923,980. The remaining holding at December 31, 2016 was 14,758 shares worth €766,776.

In December, the Group purchased 818,553 shares held by shareholders that had exercised their right of withdrawal for a price of €52.80 per share, or a total of €43,219,598.40. This value was determined based on an expert's appraisal. It also assigned 249,089 shares (totaling €13,151,899.20) to shareholders that had exercised their right of pre-emption at the same liquidation price.

At December 31, 2016, the Company held 569,464 shares treasury shares, worth a total of €30,067,699.20. The same amount, taken from distributable reserves currently totaling €343,584,496.10, will be allocated to a special reserve (purchase of own shares).

11. SUBSEQUENT EVENTS AND OUTLOOK

The main events that occurred at the start of 2017 are as follows:

- on January 18, 2017, in response to the Bank of Italy's request of January 4, 2017, Iccrea Banca communicated information on the company that would act as parent of the Mutual Banking Group;
- during the first four months the Group made contributions for present or future share capital increases in investee companies Iccrea BancaImpresa, Ventis and Satispay;
- on March 24, 2017, in the final T-LTRO II tender, the entire allocation available to Iccrea Banca as lead institution of the Group's T-LTRO II, equal to €8.9 billion, was utilized.

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

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

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

The development of digital strategies centered on the following pillars:

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

Operations in the first quarter of 2017 confirm the plan targets and were positive with a net profit of €10.9 million for the Parent Company and €2.3 million on a consolidated basis.

The performance at March 31, 2017 reflects a number of extraordinary events that negatively affected the determination of the Group's result. The primary ones are:

- the provisioning in the first quarter of the total contribution for 2017 to the National Resolution Fund (BRRD), totaling €19.2 million (€23.1 million on a consolidated basis);
- the €3.8 million writedown of the units in the Fondo Atlante after a further reduction in the market value of the shares held by the Fund.

As to the Group's operating expenses in the first quarter of 2017, it should be noted that:

- personnel expenses amounted to around €47 million, with a savings in labor costs of about €2.6 million as a result of a smaller workforce following the agreement to introduce voluntary retirement for Group staff as from January 1, 2017 (65 fewer employees compared with December 31, 2016);
- other administrative expenses came to €82 million, which, net of the BRRD contributions totaling €23.1 million, are less that indicated in the quarterly budget.

The cost-income ratio at March 31, 2017, normalized to take account of BRRD costs for just one quarter, is equal to 65%, an increase over March 31, 2016 (60%) due mainly to the decline in gross income (correlated with net interest income due to the lower yield on government securities and on negative interest rates).

As to capital ratios at March 31, 2017, the CET 1 ratio of the Parent Company was 38% and the total capital ratio was 42%; the consolidated CET 1 ratio was 12.18% and the total capital ratio was 13.32%, a slight increase over December 31, 2016.

PROPOSED ALLOCATION OF PROFIT

Dear Shareholders,

We invite you to approve the financial statements for the year ended December 31, 2016, accompanied by the report on operations and the report of the board of auditors, as statutorily 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 €21,084,184, be distributed as follows:

- €2,108,418.40 to the legal reserve;
- €459,439.60 distributable to the Board of Directors for charitable use;
- €7,300,000.00 to the extraordinary reserve;
- €11,216,326.00 as dividends in the amount of €0.5165 for each of the 21,716,023 shares in circulation with full voting rights.

To aid you in your decision, we report that at December 31, 2016 the Iccrea Banking Group's capital ratios (requirements at January 2019) are fully loaded and, furthermore, we believe that the total dividend proposed (€11.2 million) is conservative so as to enable the Iccrea Banking Group to continue to satisfy all the requirements, even should economic and financial conditions deteriorate.

Therefore, we confirm that this dividend policy centers on conservative and prudent assumptions that enable us to fully meet the current capital requirements imposed on the Iccrea Group by the supervisory authority with its decision of December 8, 2016.

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 difficult year, encouraging use in pursuit of our duties under the bylaws, with a view of our corporate mission strongly oriented toward serving mutual banks to help them support the economic and social fabric of their local communities.

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.

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 leave behind a year in which we laid the groundwork for a profound transformation of the Italian mutual banking system: the year of approval of the law for the creation of the new Mutual Banking Group, to take place in 2018, with the aim of strengthening the stability of the mutual banks and rendering more effective their efforts to be the engine for development of their local economies and the geographical areas in which they operate.

A heartfelt thanks to the mutual banks that are currently focusing on their decision to join the Mutual Banking Group promoted by Iccrea. They are strongly committed to strengthening and further developing, albeit in a new legal and contractual context, what has been built in the last few years between Iccrea and the mutual banks in a spirit of collaboration to maximize the value of mutual banking. The principles of proportionality that will underlie management and coordination are clear as is the path that must be taken to make us one of the leading banking groups in Italy.

The work and planning that we are doing to launch the Mutual Banking Group represents a very important challenge.

Over the past fifty years, Iccrea, as the leading institution of the mutual banks, has always operated in the interests of its shareholder banks. Its altered legal status will not change the underlying spirit of being a bank. Iccrea will remain faithful to the values inherent in its business model, helping mutual banks develop their services for households, individuals and businesses.

Within the new environment of European banking union, the Mutual Banking Group will enable the mutual banks to strengthen their role as a driver of the development of local economies.

Rome, May 19, 2017

THE BOARD OF DIRECTORS

Financial statements

BALANCE SHEET

	ASSETS		31/12/2016		31/12/2015 *
10.	Cash and cash equivalents		98,423,950		91,044,385
20.	Financial assets held for trading		420,177,927		402,779,515
30.	Financial assets at fair value through profit or loss		14,558,805		337,911,423
40.	Financial assets available for sale		5,650,669,289		6,720,077,506
50.	Financial assets held to maturity		1,600,389,734		1,779,509,026
60.	Due from banks		30,999,441,676		31,939,294,138
70.	Loans to customers		4,181,848,448		4,077,714,650
80.	Hedging derivatives		15,325,730		10,181,179
90.	Value adjustments of financial assets hedged generically (+/-)		(348,377)		931,764
100.	Equity investments		1,139,962,602		263,610,066
110.	Property and equipment		12,567,457		7,794,323
120.	Intangible assets		5,681,878		8,731,680
130.	Tax assets		69,899,091		6,272,896
	a) current	39,468,187		3,132,565	
	b) deferred	30,430,904		3,140,331	
	of which Law 214/2011	*2,968,715*		*3,124,963*	
150.	Other assets		186,967,310		143,488,731
	TOTAL ASSETS		**44,395,565,520**		**45,789,341,282**

	LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/2016		31/12/2015 *
10.	Due to banks		13,265,098,886		13,670,456,675
20.	Due to customers		24,444,622,415		26,029,647,965
30.	Securities issued		4,207,516,587		4,368,997,749
40.	Financial liabilities held for trading		422,615,890		475,615,372
50.	Financial liabilities at fair value through profit or loss		-		437,636,496
60.	Hedging derivatives		51,814,840		88,034,704
80.	Tax liabilities		1,966,154		17,988,432
	b) deferred	1,966,154		17,988,432	
100.	Other liabilities		371,378,874		172,170,921
110.	Employee termination benefits		12,262,953		12,768,900
120.	Provisions for risks and charges::		12,445,798		6,352,336
	b) other provisions	12,445,798		6,352,336	
130.	Valuation reserves		67,248,992		89,087,911
160.	Reserves		391,785,505		194,425,293
170.	Share premium reserve		4,746,737		-
180.	Share capital		1,151,045,404		216,913,200
190.	Treasury shares (-)		(30,067,699)		-
200.	Net profit (loss) for the period (+/-)		21,084,184		9,245,328
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**44,395,565,520**		**45,789,341,282**

* Iccrea Banca SpA financial statements

INCOME STATEMENT

		31/12/2016		31/12/2015 *	
10.	Interest and similar income		232,349,684		275,542,766
20.	Interest and similar expense		(182,127,452)		(192,855,218)
30.	**Net interest income**		**50,222,232**		**82,687,548**
40.	Fee and commission income		364,277,625		383,698,599
50.	Fee and commission expense		(236,805,464)		(256,331,772)
60.	**Net fee and commission income (expense)**		**127,472,161**		**127,366,827**
70.	Dividends and similar income		22,777,687		230,821
80.	Net gain (loss) on trading activities		15,983,680		22,351,184
90.	Net gain (loss) on hedging activities		1,572,880		65,096
100.	Net gain (loss) on the disposal or repurchase of:		78,139,983		22,962,398
	a) loans	60,520		3,692,881	
	b) financial assets available for sale	81,750,457		27,670,760	
	d) financial liabilities	(3,670,994)		(8,401,243)	
110.	Net gain (loss) on financial assets and liabilities designated as at fair value		1,099,167		1,994,915
120.	**Gross income**		**297,267,790**		**257,658,789**
130.	Net losses/recoveries on impairment:		(17,104,713)		(3,440,772)
	a) loans	4,650,547		748,267	
	b) financial assets available for sale	(19,133,210)		-	
	d) other financial transactions	(2,622,050)		(4,189,039)	
140.	**Net income (loss) from financial operations**		**280,163,077**		**254,218,017**
150.	Administrative expenses:		(303,881,672)		(247,443,998)
	a) personnel expenses	(92,586,543)		(62,329,862)	
	b) other administrative expenses	(211,295,129)		(185,114,136)	
160.	Net provisions for risks and charges		7,146,629		(231,928)
170.	Net adjustments of property and equipment		(2,992,466)		(3,002,768)
180.	Net adjustments of intangible assets		(5,658,354)		(6,726,538)
190.	Other operating expenses/income		29,393,452		20,012,758
200.	**Operating expenses**		**(275,992,411)**		**(237,392,474)**
210.	Profit (loss) from equity investments		(1,959,674)		-
250.	**Profit (loss) before tax on continuing operations**		**2,210,992**		**16,825,543**
260.	Income tax expense from continuing operations		18,873,192		(7,580,215)
270.	**Profit (loss) after tax on continuing operations**		**21,084,184**		**9,245,328**
290.	**Net profit (loss) for the period**		**21,084,184**		**9,245,328**

* Iccrea Banca SpA financial statements

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2016	31/12/2015 *
10.	**Net profit (loss) for the period**	**21,084,184**	**9,245,328**
	Other comprehensive income net of taxes not recyclable to income statement		
40.	Defined-benefit plans	(449,657)	17,079
	Other comprehensive income net of taxes recyclable to income statement		
90.	Cash flow hedges	(1,574,098)	(656,051)
100.	Financial assets available for sale	(31,415,781)	(6,565,110)
130.	**Total other comprehensive income net of taxes**	**(33,439,536)**	**(7,204,082)**
140.	**Comprehensive income (Item 10+130)**	**(12,355,352)**	**2,041,246**

* Iccrea Banca SpA financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - 2016

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

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

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – 2015

	AS AT 31/12/2014	CHANGE IN OPENING BALANCE	AS AT 1/1/2015	ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD		CHANGES IN THE PERIOD								
							EQUITY TRANSACTIONS							
				RESERVES	IVIDENDS AND OTHER ALLOCATIONS	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURYSHARES	STOCK OPTIONS	COMPREHENSIVE INCOME AT 31/12/2015	SHAREHOLDERS' EQUITY AS AT 31/12/2015
Share capital:														
a) ordinary shares	216,913,200		216,913,200	-										216,913,200
b) other shares	-		-	-										-
Share premium reserve	-		-	-										-
Reserves:														
a) earnings	104,922,929		104,922,929	7,500,000										112,422,929
b) other	82,002,364		82,002,364	-										82,002,364
Valuation reserves	96,291,993		96,291,993										(7,204,082)	89,087,911
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the year	**47,692,915**		**47,692,915**	**(7,500,000)**	**(40,192,915)**								**9,245,328**	**9,245,328**
Total shareholders' equity	**547,823,401**		**547,823,401**		**(40,192,915)**								**2,041,246**	**509,671,732**

"Reserves: other" reports the goodwill in the transfer of the Corporate business area (2007), the payment made on capital account by the Parent Company, Iccrea Holding, the merger of BCC Multimedia, the transfer of properties to Immicra S.r.l. and the transfer of the "branch services" business unit to Banca Sviluppo.

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	31/12/2016	31/12/2015
A. OPERATING ACTIVITIES		
1. Operations	**5,847,302**	**(127,289,964)**
- net profit (loss) for the period (+/-)	21,084,184	9,245,328
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(26,170)	(22,725,493)
- gains (losses) on hedging activities (-/+)	(1,572,880)	(65,096)
- net losses/recoveries on impairment (+/-)	21,038,749	4,616,894
- net adjustments of property and equipment and intangible assets(+/-)	8,650,820	9,729,806
- net provisions for risks and charges and other costs/revenues (+/-)	8,388,234	572,413
- taxes, duties and tax credits to be settled (+/-)	(740,297)	6,993,222
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-
- other adjustments (+/-)	(50,975,337)	(135,657,039)
2. Net cash flows from/used in financial assets	**2,127,579,831**	**(1,117,770,194)**
- financial assets held for trading	(12,884,276)	88,754,897
- financial assets at fair value through profit or loss	321,784,046	(23,759,147)
- financial assets available for sale	1,063,867,144	(2,585,360,252)
- due from banks: repayable on demand	(68,789,789)	(200,471,017)
- due from banks: other	991,393,915	3,825,822,090
- loans to customers	(104,061,515)	(2,205,497,687)
- other assets	(63,729,694)	(17,259,077)
3. Net cash flows from/used in financial liabilities	**(2,270,867,231)**	**(468,559,908)**
- due to banks: repayable on demand	(338,896,712)	252,903,074
- due to banks: other	(48,866,031)	(15,727,873,524)
- due to customers	(1,312,799,416)	15,104,563,297
- securities issued	(162,353,033)	(24,735,103)
- financial liabilities held for trading	(54,277,141)	(11,063,716)
- financial liabilities at fair value through profit or loss	(432,027,552)	(15,579,620)
- other liabilities	78,352,654	(46,774,316)
Net cash flows from/used in operating activities (A)	**(137,440,098)**	**(1,713,620,066)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**858,161,140**	**1,900,386,000**
- sales of equity investments	-	-
- dividends on equity investments	20,843,140.00	-
- sales of financial assets held to maturity	837,318,000	1,900,386,000
- sales of property and equipment	-	-
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	-
2. Cash flows used in	**(668,700,176)**	**(159,606,061)**
- purchases of equity investments	(26,796,262)	-
- purchases of financial assets held to maturity	(632,068,428)	(151,457,372)
- purchases of property and equipment	(7,493,449)	(1,395,213)
- purchases of intangible assets	(2,342,037)	(6,753,476)
- purchases of subsidiaries and business units	-	-
Net cash flows from/used in investing activities (B)	**189,460,964**	**1,740,779,939**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(29,624,801)	-
- issues/purchases of equity instruments	-	-
- dividend distribution and other	(15,018,247)	(40,192,915)
Net cash flows from/used in financing activities C(+/-)	**(44,643,048)**	**(40,192,915)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**7,377,818**	**(13,033,042)**

RECONCILIATION

	31/12/2016	31/12/2015
Cash and cash equivalents at beginning of period (E)	91,046,131	104,077,427
Net increase/decrease in cash and cash equivalents (D)	7,377,818	(13,033,042)
Cash and cash equivalents: net foreign exchange difference (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	98,423,949	91,044,385

PART A

Accounting policies

A.1 – GENERAL INFORMATION

This section sets out the accounting policies adopted in preparing the financial statements at December 31, 2016. 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 December15, 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Legislative Decree 38/2005.

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

The IASs/IFRSs applied in preparing the financial statements were those in force at December 31, 2016 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, 2016:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
28/2015	**Annual improvements to IFRSs I2010-2012 cycle** The amendments of IFRS 8 and IAS 16, 24 and 38 are clarifications or corrections to those standards. The amendments of IFRS 2 and 3 involve changes in current provisions or provide additional guidance.	Annual reporting periods beginning on or after February 1, 2015.
29/2015	**Amendments to IAS 19 – Defined benefit plans: employee contributions.** The amendments seek to simplify and clarify the accounting treatment of contributions by employees or third parties connected with defined benefit plans..	Annual reporting periods beginning on or after February 1, 2015.
2113/2015	**Amendments to IAS 16 Property, plant and equipment and to IAS 41 .** The IASB decided that plants that are used exclusively to bear produce over several periods should receive the same accounting treatment as property, plant and equipment under IAS 16.	Annual reporting periods beginning on or after January 1, 2016.
2173/2015	**Amendments to IFRS 11 Accounting for acquisitions of interests in joint operations.** The amendments provide guidance on accounting for acquisitions of interests in joint operations in which the activity constitutes a business.	Annual reporting periods beginning on or after January 1, 2016.
2231/2015	**Amendments to IAS 16 Property, plant and equipment and to IAS 38 Intangible assets** Clarification on acceptable methods of depreciation and amortization.	Annual reporting periods beginning on or after January 1, 2016.
2343/2015	**Annual improvements to IFRSs 2012-2014 cycle** Part of the ordinary process of rationalizing and clarifying the international financial reporting standards.	Annual reporting periods beginning on or after January 1, 2016.
2406/2015	**Amendments to IAS 1 Presentation of financial statements: disclosure initiative** The amendments seek to improve the effectiveness of disclosure and encourage entities to use professional judgement in deciding what disclosures they should make in their financial statements in application of IAS 1	Annual reporting periods beginning on or after January 1, 2016.
2441/2015	**Amendments to IAS 27 Separate financial statements: Equity method in separate financial statements.** The amendments are intended to allow entities to use the equity method, described in IAS 28 *Investments in associates and joint ventures*, to account for their investments in subsidiaries, joint ventures and associates in their separate financial statements	Annual reporting periods beginning on or after January 1, 2016.
1703/2016	**Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities – Applying the consolidation exemption** The amendments seek to specify the requirements for accounting for investment entities, providing for exemptions in certain situations..	Annual reporting periods beginning on or after January 1, 2016..
1905/2016	**IFRS 15 Revenue from contracts with customers.** The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition "at a point in time", while the second provides for recognition "over time". The standard introduces a model for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
2067/2016	**IFRS 9 Financial instruments** The standard establishes criteria for the presentation of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The new standard establishes, first and foremost, an approach for the classification and measurement of financial assets based on the characteristics of the cash flows and the business model under which the assets are held. It also introduces a single, forward-looking model of impairment that requires recognition of expected losses over the entire life of a financial instrument. Finally, hedge accounting was modified.	Annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

The following table reports new international accounting standards 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
To be determined	**IFRS 16 Leases** The new standard, which will replace IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.

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

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

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

- the business models for each Iccrea Group company have been defined;
- the functional requirements for SPPI testing have been developed and agreed within the Group, and a test was conducted with a sample portfolio. More specifically, a qualitative analysis of the Group's debt securities was completed for the purposes of SPPI testing, while analysis of SPPI testing of certain types of financial instrument (e.g. Leverage, Prepayment Option, Term Extension, Additional Tier 1, Exchanged, etc.) and the treatment of caps/floors is being defined. The qualitative analysis of loans is being completed;
- the definition of operating scenarios has been completed for the purposes of identifying that main organizational, process and technology impacts for beginning implementation of the C&M project;
- clustering of the main financial instruments is under way;
- the definition of the policies for the criteria of the SPPI test has begun;
- work has been completed on software selection of a solution for calculating the SPPI test and identification of IT solutions to adopt for benchmark testing.

With regard to Impairment:

- the impairment calculation solutions were defined on the basis of the specific features of each Group company, with specific reference to stage allocation and estimation of risk parameters (PD, LGD and EAD);
- the findings of the first impact simulation for the Group's loan and securities portfolio were assessed and shared;
- upgrading of documentation is current under way, following the identification of the documentation to prepare/update (stage allocation and policy expected credit loss);
- work was completed on software selection of a solution for calculating the IFRS 9 risk parameters, staging and impairment.

With regard to Hedge Accounting, an impact analysis was conducted of the IFRS 9 requirements with regard to both the Group's existing hedge relationships and to serve the effectiveness testing provided to participating mutual banks. An analysis was also conducted of the pros and cons of adopting the general IFRS 9 hedge accounting model. The definition of the year from which IFRS 9 rules for hedge accounting will be adopted is under way.

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, 2015, 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, 2016 , 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, 2016. The valuation exercise proved to be especially complex in view of the persistent adverse macroeconomic and market conditions, characterized by volatility in key financial parameters used in the valuation and by the deterioration of credit quality.

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

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

Content of the financial statement

BALANCE SHEET AND INCOME STATEMENT

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

STATEMENT OF COMPREHENSIVE INCOME

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

STATEMENT OF CHANGES IN EQUITY

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

STATEMENT OF CASH FLOWS

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Section 3: Events subsequent to the reporting date

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

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

Section 4: Other information

CONSOLIDATED TAX MECHANISM OPTION

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

OTHER ISSUES

The 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.

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

1 – Financial assets held for trading

CLASSIFICATION

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

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

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

RECOGNITION

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

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

MEASUREMENT

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

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

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

DERECOGNITION

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

2 – Financial assets available for sale

CLASSIFICATION

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

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

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

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

RECOGNITION

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

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

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

MEASUREMENT

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

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

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

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

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

IMPAIRMENT TESTING OF FINANCIAL ASSETS AVAILABLE FOR SALE

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

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

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

DERECOGNITION

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

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

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

3 – Financial assets held to maturity

CLASSIFICATION

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

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

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

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

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

RECOGNITION

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

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

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

MEASUREMENT

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

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

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

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

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

DERECOGNITION

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

4 – Loans and receivables

CLASSIFICATION

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

RECOGNITION

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

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

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

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

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

MEASUREMENT

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

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

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

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

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

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

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

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

DERECOGNITION

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

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

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

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

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

5 – Financial assets at fair value through profit or loss

CLASSIFICATION

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

RECOGNITION

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

MEASUREMENT

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

DERECOGNITION

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

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

RECOGNITION OF INCOME COMPONENTS

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

6 – Hedging

CLASSIFICATION

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

The types hedges used are as follows:

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

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

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

RECOGNITION

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

Hedging derivatives are measured at fair value.
More specifically:

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

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

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

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

Effectiveness is measured at every reporting date through:

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

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

DERECOGNITION

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

7 – Equity investments

CLASSIFICATION

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

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

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

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

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

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

RECOGNITION

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

MEASUREMENT

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

IMPAIRMENT TESTING OF EQUITY INVESTMENTS

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

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading by more than two grades of the rating issued by a specialist agency;

- quantitative indicators consisting of a reduction in fair value below the carrying amount of over 30%, or for a period of more than 24 months, or a carrying amount for the equity investment in the separate financial statements greater than the carrying amount in the consolidated financial statements of the company's net assets and goodwill, or the distribution by the latter of a dividend greater than its comprehensive income. In the presence of evidence of impairment, the size of any writedown is determined on the basis of the difference between the carrying amount and the recoverable value, which is equal to the greater of fair value less costs to sell and the value in use.

DERECOGNITION

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

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

RECOGNITION OF INCOME COMPONENTS

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

8 – Property and equipment

CLASSIFICATION

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

RECOGNITION

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

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

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

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

MEASUREMENT

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

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

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

9 – Intangible assets

CLASSIFICATION

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

RECOGNITION

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

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

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

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

CLASSIFICATION

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

RECOGNITION

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

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

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

DERECOGNITION

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

11 – Current and deferred taxation

CLASSIFICATION

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

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

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

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

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

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

12 – Provisions for risks and charges

Other provisions for risks and charges

RECOGNITION AND CLASSIFICATION

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

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

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

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

DERECOGNITION

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

13 – Debt and securities issued

CLASSIFICATION

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

RECOGNITION

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

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

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

14 – Financial liabilities held for trading

CLASSIFICATION

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

RECOGNITION

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

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

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

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

15 – Financial liabilities designated as at fair value

CLASSIFICATION

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

RECOGNITION

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

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

16 – Foreign currency transactions

RECOGNITION

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

MEASUREMENT

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

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

RECOGNITION OF INCOME COMPONENTS

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

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

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

17 – Other information

Employee termination benefits

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

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

Therefore, starting January 1, 2007, the Bank:

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

Recognition of revenues

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

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized in the income statement only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenues from services are recognized in the period in which the service is rendered;

- revenues from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenues from the sale of non-financial assets are recognized upon completion of the sale, unless the Bank has retained most of the risks and rewards connected with the asset.

Accruals and deferrals

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

Costs for leasehold improvements

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

DETERMINATION OF FAIR VALUE

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

FINANCIAL INSTRUMENTS

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

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

Valuation techniques consider:

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

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

- **Level 1:** when the financial assets and liabilities have unadjusted quoted prices on an active market;
- **Level 2:** when quoted prices on an active market for similar assets and liabilities are available or prices are derived from valuation techniques whose inputs are directly or indirectly observable market parameters;

- **Level 3:** when prices are calculated using valuation techniques whose significant inputs are not observable on the market.

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

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

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

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

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

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

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

The most common valuation techniques used are:

- discounted cash flow models
- option pricing models.

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

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

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

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

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

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

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

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

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

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

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

NON-FINANCIAL INSTRUMENTS

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

DETERMINATION OF IMPAIRMENT

FINANCIAL ASSETS

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

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

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

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

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

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

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

recognized in profit or loss even though the financial asset has not been derecognized.

Any writebacks are recognized as follows:

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

The price of impaired financial instruments is determined as follows:

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

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

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

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

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

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

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

DEBT SECURITIES

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

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

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

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

EQUITY SECURITIES

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

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

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

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

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

OTHER NON-FINANCIAL ASSETS

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

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

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

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

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

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

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

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

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

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

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

Financial guarantees

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

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

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

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

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

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

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

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

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

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

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

A.3.3 TRANSFERS OF FINANCIAL ASSETS HELD FOR TRADING

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

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

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

A.4 – FAIR VALUE DISCLOSURE

Qualitative disclosures

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

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

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

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

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

Mark to Market approach

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

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

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

Comparable Approach

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

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

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

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

Mark to Model approach

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

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

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

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

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

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

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

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

Valuation adjustments are intended to:

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

The factors impacting the need for an adjustment are:

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

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

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

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

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

A.4.2 Valuation processes and sensitivity

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

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

A.4.3 Fair value hierarchy

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

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

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

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

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

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

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

A.4.4 Other information

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

Quantitative disclosures

A.4.5 FAIR VALUE HIERARCHY

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

	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	91,041	328,899	238	61,225	341,138	417
2. Financial assets designated as at fair value		14,559		-	337,911	-
3. Financial assets available for sale	4,874,098	712,085	62,464	6,594,068	118,810	1,011
4. Hedging derivatives		15,326		-	10,181	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
TOTAL	**4,965,139**	**1,070,869**	**62,702**	**6,655,293**	**808,040**	**1,428**
1. Financial liabilities held for trading	98,455	324,160	-	137,878	337,737	-
2. Financial liabilities designated as at fair value	-	-	-	437,636	-	-
3. Hedging derivatives	-	51,815	-	-	88,035	-
TOTAL	**98,455**	**375,975**	**-**	**575,514**	**425,772**	**-**

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 €44 thousand, while the change attributable to the Debt Value Adjustment was about €1,000.

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
1. Opening balance	**417**	**-**	**1,011**	**-**	**-**	**-**
2. Increases	**118**	**-**	**61,454**	**-**	**-**	**-**
2.1 Purchases	106	-	29,991	-	-	-
2.2 Profits recognized in:	8	-	988	-	-	-
2.2.1 Income statement	8	-	-	-	-	-
- of which: capital gains	6	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	988	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	4	-	30,475	-	-	-
3. Decreases	**297**	**-**	**1**	**-**	**-**	**-**
3.1 Sales	243	-	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-
3.3 Losses recognized in:	54	-	1	-	-	-
3.3.1 Income statement	54	-	-	-	-	-
- of which: capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	1	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	**238**	**-**	**62,464**	**-**	**-**	**-**

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 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 A NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL.

	31/12/2016				31/12/2015			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	1,600,390	1,603,260			1,779,509	-	-	-
2. Due from banks	30,999,442	-	9,898,153	21,024,262	31,939,294	-	9,898,153	19,817,952
3. Loans to customers	4,181,848	-	1,538,373	2,712,610	4,077,714	-	1,538,373	2,852,454
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**36,781,680**	**1,603,260**	**11,436,526**	**23,736,872**	**37,796,517**	**-**	**11,436,526**	**22,670,406**
1. Due to banks	13,265,099	-	652,084	12,598,233	13,670,457	-	652,084	12,598,233
2. Due to customers	24,444,622	-	24,326	24,393,912	26,029,648	-	24,326	24,393,912
3. Securities issued	4,207,517	3,607,331	627,977		4,368,998	3,607,331	627,977	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**41,917,238**	**3,607,331**	**1,304,387**	**36,992,145**	**44,069,103**	**3,607,331**	**1,304,387**	**36,992,145**

Key:

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

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

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IAS 39, paragraphs AG 74 - AG 79 and IFRS 7, paragraph 28. More specifically, the net negative effect of about €92 thousand, recognized in full through profit or loss, was associated with the hedge of a dollar-denominated bond. Paragraph AG 76, point a) of IAS 39 establishes that an entity shall recognize through profit or loss the difference between the fair value at the date of initial recognition (whether a quoted price in an active market - Level 1 or based on a valuation technique that uses observable data – Level 2) and the transaction price

Part B

Information on the balance sheet

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

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

CASH AND CASH EQUIVALENTS: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
a) Cash	98,424	91,044
b) Demand deposits with central banks	-	-
TOTAL	**98,424**	**91,044**

"Cash" includes foreign currency in the amount of €17,065 thousand.

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

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

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	TOTAL AT 31/12/2016			TOTAL AT 31/12/2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. On-balance-sheet assets						
1. Debt securities	**90,627**	**4**	**79**	**59,227**	**2,363**	**213**
1.1 structured securities	6,383	-	79	3,293	704	213
1.2 other debt securities	84,244	4	-	55,934	1,659	-
2. Equity securities	**170**	**78**	**159**	**911**	**63**	**204**
3. Units in collective investment undertakings	**100**			**976**	**-**	**-**
4. Loans	**-**			**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL A	**90,897**	**82**	**238**	**61,114**	**2,426**	**417**
B. Derivatives						
1. Financial derivatives	**144**	**328,817**	**-**	**111**	**338,712**	**-**
1.1 trading	144	328,817	-	111	333,976	-
1.2 associated with fair value option	-	-	-	-	4,736	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
TOTAL B	**144**	**328,817**	**-**	**111**	**338,712**	**-**
TOTAL (A+B)	**91,041**	**328,899**	**238**	**61,225**	**341,138**	**417**

2.2 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY DEBTOR/ISSUER

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. On-balance-sheet assets		
1. Debt securities	**90,711**	**61,803**
a) Governments and central banks	83,968	54,695
b) Other government agencies	-	22
c) Banks	5,768	5,140
d) Other issuers	975	1,946
2. Equity securities	**406**	**1,178**
a) Banks	-	62
b) Other issuers:	406	1,116
- insurance undertakings	-	68
- financial companies	71	188
- non-financial companies	336	860
- other	-	-
3. Units in collective investment undertakings	**100**	**976**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
TOTAL A	**91,217**	**63,957**
B. Derivatives		
a) Banks	**295,886**	**305,729**
- fair value	295,886	305,729
b) Customers	**33,075**	**33,094**
- fair value	33,075	33,094
TOTAL B	**328,961**	**338,823**
TOTAL (A+B)	**420,178**	**402,780**

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 AT FAIR VALUE – ITEM 30

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

3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

	TOTAL AT 31/12/2016			TOTAL AT 31/12/2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**-**	**14,559**	**-**	**-**	**337,911**	**-**
1.1 structured securities	-	14,559	-	-	15,121	-
1.2 other debt securities	-	-	-	-	322,790	-
2. Equity securities	**-**	**-**	**-**	**-**	**-**	**-**
3. Units in collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 structured	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL	**-**	**14,559**	**-**	**-**	**337,911**	**-**
COST	**-**	**14,978**	**-**	**-**	**334,989**	**-**

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 AT FAIR VALUE: COMPOSITION BY DEBTOR/ISSUER

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Debt securities	**14,559**	**337,911**
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	14,559	337,911
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) other issuers:	-	-
- insurance undertakings	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units in collective investment undertakings	**-**	**-**
4. Loans	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
TOTAL	**14,559**	**337,911**

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

	TOTAL AT 31/12/2016			TOTAL AT 31/12/2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**4,855,870**	**295,581**	**-**	**6,587,437**	**118,810**	**-**
1.1 structured securities	15,838	72	-	51,089	103,272	-
1.2 other debt securities	4,840,032	295,509	-	6,536,348	15,538	-
2. Equity securities	**17,437**	**-**	**37,807**	**6,632**	**-**	**6,188**
2.1 at fair value	17,437	-	18,140	6,632	-	-
2.2 carried at cost	-	-	19,667	-	-	6,188
3. Units in collective investment undertakings	**791**	**416,504**	**26,679**	**-**	**-**	**1,011**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**4,874,098**	**712,085**	**64,486**	**6,594,069**	**118,810**	**7,199**

The item mainly comprises government securities.

4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY DEBTOR/ISSUER

	TOTAL AT 31/12/2016	TOTAL 31/12/2015
1. Debt securities	**5,151,451**	**6,706,247**
a) Governments and central banks	5,134,962	6,680,848
b) Other government agencies	-	-
c) Banks	8,405	14,503
d) Other issuers	8,084	10,896
2. Equity securities	**55,244**	**12,820**
a) Banks	10,808	1
b) Other issuers:	44,436	12,819
- insurance undertakings	14,189	-
- financial companies	23,167	7,160
- non-financial companies	7,080	5,659
- other	-	-
3. Units in collective investment undertakings	**443,974**	**1,011**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
TOTAL	**5,650,669**	**6,720,078**

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 €155,038 thousand
- Fondo Securis Real Estate II €176,864 thousand
- Fondo Securis Real Estate III €84,603 thousand

During the year two purchase transactions were carried out to optimize the allocation of capital within the Group, acquiring units previously held by Iccrea BancaImpresa in the real estate funds for a total of €422,125 thousand. At December 31, 2016 total writedowns of €5,620 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.
The outcome of the testing essentially confirmed the values recognized in the separate financial statements of Iccrea Banca, with the exception of Fondo Atlante, for which an impairment loss of €9.7 million was recognized.

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Financial assets with specific fair value hedges:	**944,099**	**1,645,853**
a) interest rate risk	944,099	1,645,853
b) price risk	-	-
c) exchange rate risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2. Financial assets with specific cash flow hedges:	**33,646**	**34,091**
a) interest rate risk	33,646	34,091
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**977,745**	**1,679,944**

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

SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

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

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY TYPE

	TOTAL AT 31/12/2016				TOTAL AT 31/12/2015			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**1,600,390**	**1,603,260**	**-**	**-**	**1,779,509**	**1,794,597**	**-**	**-**
- structured	-	-	-	-	-	-	-	-
- other	1,600,390	1,603,260	-	-	1,779,509	1,794,597	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**1,600,390**	**1,603,260**	**-**	**-**	**1,779,509**	**1,794,597**	**-**	**-**

Key:

FV = fair value
CA = carrying amount

The item is entirely composed of government securities.

5.2 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION BY DEBTOR/ISSUER

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Debt securities	**1,600,390**	**1,779,509**
a) Governments and central banks	1,600,390	1,779,509
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
TOTAL	**1,600,390**	**1,779,509**
TOTAL FAIR VALUE	**1,603,260**	**1,794,597**

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

	TOTAL AT 31/12/2016				TOTAL AT 31/12/2015			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Claims on central banks	**152,719**				**149,669**			
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Reserve requirement	152,719	X	X	X	149,669	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**30,846,723**				**31,789,625**			
1. Financing	26,119,854				27,851,716			
1.1. Current accounts and demand deposits	568,552	X	X	X	548,482	X	X	X
1.2. Fixed-term deposits	98,880	X	X	X	172,588	X	X	X
1.3. Other financing:	25,452,422	X	X	X	27,130,646	X	X	X
- Repurchase agreements	1,939,470	X	X	X	4,410,782	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	23,512,952	X	X	X	22,719,864	X	X	X
2. Debt securities	4,726,869				3,937,909			
2.1 Structured securities	38,104	X	X	X	57,055	X	X	X
2.2 Other debt securities	4,688,765	X	X	X	3,880,854	X	X	X
TOTAL	**30,999,442**	**-**	**9,898,153**	**21,024,262**	**31,939,294**	**-**	**12,094,589**	**19,848,564**

Key:

FV = fair value
CA = carrying amount

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

Loans secured by securities eligible for use in refinancing transactions (pool collateral) amounted to €21,495 million. The loans include €5,472 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 €23,996 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 €1,472 million, which comes to a net of around €527 million after the haircut is applied.

6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Loans with specific fair value hedges:	**894,345**	**80,653**
a) interest rate risk	894,345	80,653
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans with specific cash flow hedges:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**894,345**	**80,653**

The item consists of fixed-rate treasury deposits hedged with overnight indexed swaps.

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

	TOTAL AT 31/12/2016						TOTAL AT 31/12/2015					
	CARRYING AMOUNT			FAIR VALUE			CARRYING AMOUNT			FAIR VALUE		
	PERFORMING	IMPAIRED		L 1	L 2	L 3	PERFORMING	IMPAIRED		L 1	L 2	L 3
		PURCHASED	OTHER					PURCHASED	OTHER			
Loans	**4,155,401**	**-**	**19,955**				**4,058,096**	**-**	**19,618**			
1. Current accounts	184,754	-	199	X	X	X	153,148	-	198	X	X	X
2. Repurchase agreements	921,560	-	-	X	X	X	1,409,005	-	-	X	X	X
3. Medium/long-term loans	109,948	-	19,607	X	X	X	126,023	-	19,272	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	2,939,139	-	149	X	X	X	2,369,920	-	148	X	X	X
Debt securities	**6,492**	**-**	**-**				**-**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	6,492	-	-	X	X	X	-	-	-	X	X	X
TOTAL	**4,161,893**	**-**	**19,955**	**-**	**1,538,373**	**2,712,610**	**4,058,096**	**-**	**19,618**	**-**	**1,245,864**	**2,821,842**

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

	TOTAL AT 31/12/2016			TOTAL AT 31/12/2015		
	PERFORMING	IMPAIRED		PERFORMING	IMPAIRED	
		PURCHASED	OTHER		PURCHASED	OTHER
1. Debt securities:	**6,492**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	6,492	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	6,492	-	-	-	-	-
- insurance undertakings	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**4,155,401**	**-**	**19,955**	**4,058,096**	**-**	**19,618**
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	4,155,401	-	19,955	4,058,096	-	19,618
- non-financial companies	48,705	-	14,106	76,397	-	14,361
- financial companies	3,968,086	-	-	3,830,178	-	-
- insurance undertakings	60,538	-	-	60,678	-	-
- other	78,072	-	5,849	90,843	-	5,257
TOTAL	**4,161,893**	**-**	**19,955**	**4,058,096**	**-**	**19,618**

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Loans with specific fair value hedges:	**23,760**	**30,744**
a) interest rate risk	23,760	30,744
b) exchange rate risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans with specific cash flow hedges:	**-**	**-**
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**23,760**	**30,744**

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 €19,683 thousand (outstanding debt at December 31, 2016), 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 31/12/2016			NV AT 31/12/2016	FV AT 31/12/2015			NV AT 31/12/2015
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**15,325**	**-**	**3,187,153**	**-**	**10,181**	**-**	**543,335**
1) Fair value	-	7,896	-	3,097,029	-	4,875	-	442,700
2) Cash flows	-	7,429	-	90,124	-	5,306	-	100,635
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**15,325**	**-**	**3,187,153**	**-**	**10,181**	**-**	**543,335**

Key:

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

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

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

	FAIR VALUE						CASH FLOW		NVESTMENTS 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	236	-	-	-	-	X	-	X	X
2. Loans	662	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	1,137	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 31/12/2016	**898**	**-**	**-**	**-**	**-**	**1,137**	**-**	**-**	**-**
1. Financial liabilities	5,861	-	-	X	-	X	7,430	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 31/12/2016	**5,861**	**-**	**-**	**X**	**-**	**-**	**7,430**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

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

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

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

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

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

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

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

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

9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Positive adjustments	**-**	**932**
1.1 of specific portfolios:	-	932
a) loans	-	932
b) financial assets available for sale	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**(348)**	**-**
2.1 of specific portfolios:	(348)	-
a) loans	(348)	-
b) financial assets available for sale	-	-
2.2 comprehensive	-	-
TOTAL	**(348)**	**932**

9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Loans	3,028,456	1,678,000
2. Assets available for sale	-	-
3. Portfolio	-	-
TOTAL	**3,028,456**	**1,678,000**

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

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

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

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

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

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

	CARRYING AMOUNT	FAIR VALUE	DIVIDENDS RECEIVED
A. Wholly-owned subsidiaries			
Iccrea BancaImpresa S.p.A.	680,419	-	-
BCC Beni Immobili s.r.l.	18,314	-	-
BCC Retail scarl	-	-	-
Ventis s.r.l.	-	-	-
Bcc Sistemi Informatici	45,025	-	-
BCC Risparmio e Previdenza	22,474	-	9,562
BCC Gestione Crediti	1,411	-	-
BCC Solutions	75,700	-	-
BCC Credito Consumo	50,241	-	7,392
Banca Sviluppo	101,959	-	-
QF Securfondo	37,979	-	-
C. Companies subject to significant influence			
M-Facility S.P.A.	373	-	-
Hi-Mtf S.p.A.	1,250	-	-
BCC Vita S.p.A.	96,530	-	3,889
BCC Assicurazioni	8,080	-	-
Accademia BCC S.c.p.A.	208	-	-
TOTAL	**1,139,963**	**-**	**20,843**

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)
A. Wholly-owned subsidiaries														
Iccrea BancaImpresa S.p.A.	33	10,598,184	264,214	10,038,654	152,160	285,581	196,213	(865)	(37,473)	(28,590)	-	(28,590)	-	(28,590)
BCC Beni Immobili s.r.l.	0	-	25,965	8,657	433	1,939	(126)	(1,144)	276	115	-	115	-	115
BCC Retail	-	4,275	278,050	4,007	747	4,315	-	148	(924)	(1,012)	-	(1,012)	-	(1,012)
Ventis s.r.l.	979	225	1,383	-	5,553	-	(17)	(91)	(1,598)	(1,228)	-	(1,228)	-	(1,228)
Bcc Sistemi Informatici	4	52,018	14,453	18,635	7,940	83,595	-	(7,037)	1,032	201	-	201	-	201
BCC Risparmio e Previdenza	1	51,382	10,747	21,141	7,351	103,457	159	(367)	12,336	8,054	-	8,054	-	8,054
BCC Gestione Crediti	2	3,733	6,730	829	5,910	11,155	(34)	(44)	958	399	-	399	-	399
BCC Solutions	5	5,550	92,067	20,348	17,621	33	(965)	(3,335)	3,382	1,869	-	1,869	-	1,869
BCC Credito Consumo	42	916,237	15,403	848,968	19,661	69,648	41,249	(66)	14,057	9,877	-	9,877	-	9,877
Banca Sviluppo	14,795	3,086,939	184,715	3,013,055	137,399	79,298	33,389	(2,499)	1,359	1,057	-	1,057	-	1,057
QF Securfondo	41,417	1,777	31,682		1,966	385		(22,925)	(25,909)	(25,909)	-	(25,909)	-	(25,909)
C. Companies subject to significant influence														
M-Facility S.P.A.	X	40	804	-	95	0	X	X	247	(486)	-	(486)	-	(486)
Hi-Mtf S.p.A.	X	6,398	355	-	586	2,677	X	X	111	71	-	71	-	71
BCC Vita S.p.A.	X	50,011	2,646,123	-	30,947	404,236	X	X	14,470	9,055	-	9,055	-	9,055
BCC Assicurazioni	X	77,558	45	-	90,869	1,085	X	X	(3,092)	(2,272)	-	(2,272)	-	(2,272)
Accademia BCC S.c.p.A.	X	2,160	12	-	1,663	2,408	X	X	32	9	-	9	-	9

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. Opening balance	**263,610**	**263,610**
B. Increases	**878,312**	**-**
B.1 Purchases	15,760	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	862,552	-
C. Decreases	**1,959**	**-**
C.1 Sales	-	-
C.2 Writedowns	1,959	-
C.3 Other changes	-	-
D. Closing balance	**1,139,963**	**263,610**
E. Total revaluations	**-**	**-**
F. Total writedowns	**-**	**-**

Item "B.1 purchases" mainly regards the subscription of the capital increase of BCC Vita S.p.A. in the amount of €14.7 million and Ventis s.r.l. in the amount of €1 million. All the interests deriving from the merger with the former Parent Company, Iccrea Holding, are reported under "B.4 Other changes".

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 2016 financial statements and the fraction of equity recognized in the financial statements of the investee underwent an impairment testing.
The recoverability of the carrying amount of was assessed using a number of approaches: shareholder' equity, market multiples, dividend discount model, equity with valuation of funding and appraisal value.
The test essentially confirmed the values recognized in the separate financial statements of Iccrea Banca, with the exception of the following investees:

M.-Facility S.p.A.	impairment €332 thousand
Ventis s.r.l.	impairment €1,000 thousand
BCC Retail Scrl	impairment €628 thousand

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 commitment undertaken in the disposal to third parties of 51% of BCC Vita, for the financial guarantee of a number of securities securing the reserves, amounted to €781.3 thousand as an indemnity for the definitive extinguishment of the guarantee granted previously.

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Owned assets	**12,567**	**7,794**
a) land	-	-
b) buildings	-	-
c) movables	379	311
d) electronic plant	11,641	6,873
e) other	547	610
2 Assets acquired under financial leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) movables	-	-
d) electronic plant	-	-
e) other	-	-
TOTAL	**12,567**	**7,794**

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	MOVABLES	ELECTRONIC PLANT	OTHER	TOTAL AT 31/12/2016
A. Opening gross balance	**-**	**-**	**310**	**6,874**	**610**	**7,794**
A.1 Total net writedown	-	-				
A.2 Opening net balance	**-**	**-**	**310**	**6,874**	**610**	**7,794**
B. Increases:	**-**	**-**	**126**	**7,116**	**523**	**7,765**
B.1 Purchases	-	-		7,116	377	7,493
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	-	-	126	-	146	272
C. Decreases:	**-**	**-**	**57**	**2,349**	**586**	**2,992**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	57	2,349	586	2,992
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	-	-	-	-	-	-
D. Closing net balance	**-**	**-**	**379**	**11,641**	**547**	**12,567**
D.1 Total net writedowns	-	-	57	2,349	586	2,992
D.2 Closing gross balance	-	-	436	13,990	1,133	15,559
E. Measurement at cost	**-**	**-**	**436**	**13,990**	**1,133**	**15,559**

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

	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	X	**-**	X	**-**
A.2 Other intangible assets	**5,682**	**-**	**8,732**	**-**
A.2.1 Assets carried at cost:	5,682	-	8,732	-
a) internally generated intangible assets	-	-	-	-
b) other assets	5,682	-	8,732	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
TOTAL	**5,682**	**-**	**8,732**	**-**

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

12.2 INTANGIBLE ASSETS: CHANGE FOR THE PERIOD

	GOODWILL	OTHER INTANGIBLE ASSETS: INTERNALLY GENERATED		OTHER INTANGIBLE ASSETS: OTHER		TOTAL AT 31/12/2016
		FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE	
A. Opening balance	-	-	-	8,732	-	8,732
A.1 Total net writedown	-	-	-	-	-	-
A.2 Opening net balance	-	-	-	8,732	-	8,732
B. Increases	-	-	-	2,608	-	2,608
B.1 Purchases	-	-	-	2,608	-	2,608
- business combinations	-	-	-	267	-	267
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	-	-	-	-	-	-
C. Decreases	-	-	-	5,658	-	5,658
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	-	-	5,658	-	5,658
- Amortization	X	-	-	5,658	-	5,658
- 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	-	-	-	-	-	-
D. Closing net balance	-	-	-	5,682	-	5,682
D.1 Total net writedown	-	-	-	-	-	-
E. Closing gross balance	-	-	-	5,682	-	5,682
F. Measurement at cost	-	-	-	-	-	-

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. Gross deferred tax assets	**36,343**	**9,186**
A1. Loans (including securitizations)	2,969	3,892
A2. Other financial instruments	3,272	2,213
A3. Goodwill	-	-
A4. Deferred charges	-	-
A5 Property and equipment	-	-
A6. Provisions for risks and charges	3,894	2,351
A7. Entertainment expenses	-	0
A8. Personnel costs	926	730
A9. Tax losses	18,639	-
A10. Unused tax credits to deduct	6,643	-
A11. Other	-	-
B. Offsetting with deferred tax liabilities*	**5,912**	**6,046**
C. Net deferred tax assets (A-B)	**30,431**	**3,140**

13.2 DEFERRED TAX LIABILITIES: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. Gross deferred tax liabilities	**7,878**	**24,034**
A1. Capital gains tax in installments	2,369	3,513
A2. Goodwill	-	-
A3. Property and equipment	-	-
A4. Financial instruments	5,509	20,521
A5. Personnel costs	-	-
A6. Other	-	-
B. Offsetting with deferred tax assets	**5,912**	**6,046**
C. Net deferred tax liabilities (A-B)	**1,966**	**17,988**

Current tax assets and liabilities in respect of corporate income tax (IRES) included in the consolidated tax mechanism have been reclassified from “other assets” and “other liabilities” to the sub-item “Receivables/payables in respect of Parent Company for consolidated tax mechanism”.

DEFERRED TAXES NOT RECOGNIZED

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

- deferred tax liabilities in respect of the revaluation reserve established in 2003 pursuant to Law 342 of 22/11/2000 net of the special capital gains tax already paid (€11,227 thousand). As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €8.3 million.

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Opening balance	**6,573**	**6,543**
2. Increases	**31,665**	**900**
2.1 Deferred tax assets recognized during the period	31,665	900
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	31,665	900
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**5,519**	**870**
3.1 Deferred tax assets derecognized during the period	5,519	870
a) reversals	5,519	870
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credits pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**32,719**	**6,573**

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Opening balance	**3,125**	**3,109**
2. Increases	**0**	**16**
3. Decreases	**156**	**-**
3.1 Reversals	156	-
3.2 Transformation into tax credits	-	-
a) from loss for the year	-	-
b) from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,969**	**3,125**

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Opening balance	**3,432**	**4,576**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognized during the period	-	-
a) in respect of previous period	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,143**	**1,144**
3.1 Deferred tax liabilities derecognized during the period	1,143	1,144
a) reversals	1,143	1,144
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**2,289**	**3,432**

13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Opening balance	**2,613**	**1,060**
2. Increases	**1,012**	**1,559**
2.1 Deferred tax assets recognized during the period	1,012	1,559
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	1,012	1,559
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1**	**6**
3.1 Deferred tax assets derecognized during the period	1	6
a) reversals	1	6
b) writedowns for supervening non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**3,624**	**2,613**

13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Opening balance	**20,601**	**23,266**
2. Increases	**860**	**-**
2.1 Deferred tax liabilities recognized during the period	860	-
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	860	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**15,871**	**2,665**
3.1 Deferred tax liabilities derecognized during the period	15,871	2,665
a) reversals	15,871	2,665
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**5,590**	**20,601**

13.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2012, 2013, 2014 and 2015 (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. As the Bank believe that the notice of assessment is groundless both in substance and form, it lodged an appeal with the Provincial Tax Commission of Brescia on December 22, 2014. As the Commission ruled for the Revenue Agency. the Bank appealed the ruling before the Regional Tax Commission on December 16, 2015. As the Tax Commission ruled in favor of the Revenue Agency on appeal, the Bank decided to appeal 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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Items being processed	66,845	29,284
Failed		-
Receivables for future premiums	18,874	20,346
Commissions	25,849	27,908
Receivables due from Parent Company in respect of consolidated tax mechanism	-	16,406
Definitive items not allocable to other accounts	33,345	29,372
Tax receivables due from tax authorities and other entities	42,054	20,173
TOTAL	**186,967**	**143,489**

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

LIABILITIES

SECTION 1 - DUE TO BANKS – ITEM 10

This item reports amounts due to banks, whatever their technical form other than those reported under items 30, 40 and 50.

1.1 DUE TO BANKS: COMPOSITION BY TYPE

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Due to central banks	**5,500,000**	**6,584,962**
2. Due to banks	**7,765,099**	**7,085,495**
2.1 Current accounts and demand deposits	4,018,089	4,129,096
2.2 Fixed-term deposits	3,310,672	2,890,421
2.3 Loans	433,206	62,551
2.3.1 Repurchase agreements	421,991	51,551
2.3.2 Other	11,215	11,000
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	3,133	3,427
TOTAL	**13,265,099**	**13,670,457**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**652,084**	**395,504**
FAIR VALUE LEVEL 3	**12,598,233**	**13,287,374**
TOTAL FAIR VALUE	**13,250,317**	**13,682,878**

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

The sub-item “fixed-term deposits” also includes deposits received from mutual banks in the amount of about €826,000 thousand 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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Current accounts and demand deposits	276,011	466,979
2. Fixed-term deposits	2,223	11,359
3. Loans	23,535,189	25,085,078
3.1 Repurchase agreements	23,535,189	24,906,078
3.2 Other	-	179,000
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other payables	631,199	466,232
TOTAL	**24,444,622**	**26,029,648**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**24,326**	**288,821**
FAIR VALUE LEVEL 3	**24,393,912**	**25,739,054**
TOTAL FAIR VALUE	**24,418,238**	**26,027,875**

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

	TOTAL AT 31/12/2016				TOTAL AT 31/12/2015			
	CARRYING AMOUNT	FAIR VALUE			CARRYING AMOUNT	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Securities								
1. Bonds	4,207,517	3,607,331	627,977	-	4,368,998	3,703,621	738,415	-
1.1 structured	404,319	413,282	3,609	-	453,174	471,612	5,946	-
1.2 other	3,803,198	3,194,049	624,368	-	3,915,824	3,232,009	732,469	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**4,207,517**	**3,607,331**	**627,977**	**-**	**4,368,998**	**3,703,621**	**738,415**	**-**

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

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

At December 31, 2016 the following subordinated securities were in issue:

1. Issue date March 6, 2014, Maturity date March 6, 2021, nominal value of €200 million, annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year (March 6, 2017) in 5 equal annual instalments.

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

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

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

3.3 SECURITIES ISSUED: SECURITIES HEDGED SPECIFICALLY

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Securities covered by specific fair value hedges	**470,399**	**519,276**
a) interest rate risk	470,399	519,276
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Liabilities covered by specific cash flow hedges:	**80,166**	**48,169**
a) interest rate risk	-	-
b) exchange rate risk	80,166	48,169
c) other	-	-
TOTAL	**550,565**	**567,445**

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

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

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

This item reports financial derivatives held for trading.

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	TOTAL AT 31/12/2016					TOTAL AT 31/12/2015				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	**571**	**606**	**-**	**-**	**606**	**100**	**116**	**-**	**-**	**116**
2. Due to customers	**91,863**	**96,983**	**16**	**-**	**96,999**	**135,013**	**137,634**	**-**	**-**	**137,634**
3. Debt securities	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
3.1 Bonds	-	-	-	-		-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL A	**92,434**	**97,589**	**16**	**-**	**97,605**	**135,113**	**137,750**	**-**	**-**	**137,750**
B. Derivatives										
1. Financial derivatives		**866**	**324,145**	**-**			**128**	**337,737**	**-**	
1.1 Trading	X	866	324,145		X	X	128	337,737		X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		**-**	**-**	**-**			**-**	**-**	**-**	
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL B	**X**	**866**	**324,145**	**-**	**X**	**X**	**128**	**337,737**	**-**	**X**
TOTAL (A+B)	**X**	**98,455**	**324,161**	**-**	**X**	**X**	**137,878**	**337,737**	**-**	**X**

Key

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

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

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

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

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

	TOTAL AT 31/12/2016					TOTAL AT 31/12/2015				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**427,557**	**437,636**	**-**	**-**	**438,333**
3.1 Structured	-	-	-	-	X	427,557	437,636	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL	**-**	**-**	**-**	**-**	**-**	**427,557**	**437,636**	**-**	**-**	**438,333**

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

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

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

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

	FAIR VALUE AT 31/12/2016			NV AT 31/12/2016	FAIR VALUE AT 31/12/2015			NV AT 31/12/2015
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**51,815**	**-**	**2,128,842**	**-**	**88,035**	**-**	**3,537,429**
1) Fair value	-	47,571	-	2,096,242	-	84,596	-	3,504,987
2) Cash flows	-	4,244	-	32,600	-	3,439	-	32,442
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**51,815**	**-**	**2,128,842**	**-**	**88,035**	**-**	**3,537,429**

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	29,770	-	-	-	-	X	4,244	X	X
2. Loans	4,173	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	2,384	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 31/12/2016	**33,943**	**-**	**-**	**-**	**-**	**2,384**	**4,244**	**-**	**-**
1. Financial liabilities	11,244	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 31/12/2016	**11,244**	**-**	**-**	**X**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	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.

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

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

SECTION 8 – TAX LIABILITIES – ITEM 80

See section 13 under assets.

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

See section 14 under assets.

SECTION 10 – OTHER LIABILITIES – ITEM 100

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

10.1 OTHER LIABILITIES: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Amounts due to social security institutions and State	17,690	6,967
Amounts available to customers	15,477	15,559
Items being processed	90,753	23,828
Securities to be settled	51	5,026
Definitive items not allocable to other accounts	26,605	27,123
Liabilities for future premiums	9,541	11,335
Payables due to Parent Company in respect of consolidated tax mechanism	-	7,451
Tax payables due to tax authorities	56,112	10,816
Payables due to employees	3,213	5,065
Invoices to be paid and to be received	56,041	40,728
Failed purchase transactions	95,877	9,226
Illiquid portfolio items	18	9,047
TOTAL	**371,379**	**172,171**

The sub-item "definitive items not allocable to other accounts" include transactions settled in January 2017.

SECTION 11 - EMPLOYEE TERMINATION BENEFITS – ITEM 110

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

11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. Opening balance	**12,769**	**13,740**
B. Increases	**1,311**	**208**
B.1 Provisions for the period	835	208
B.2 Other increases	477	-
C. Decreases	**1,817**	**1,179**
C.1 Benefit payments	1,817	1,155
C.2 Other decreases	-	24
D. Closing balance	**12,263**	**12,769**
Total	**12,263**	**12,769**

“Other increases” reflect the merger with Iccrea Holding.

11.2 OTHER INFORMATION

Employee termination benefits cover the entire entitlement accrued as at the reporting date by employees, in conformity with applicable law, the collective bargaining agreement and supplementary company-level contract. The liability calculated pursuant to Art. 2120 of the Civil Code amounted to €11,444 thousand (€12,586 thousand at December 31, 2015).

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 2.38% for all categories of employee and used only for seniority purposes.

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

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES – ITEM 120

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

12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1 Company pension plans	-	-
2. Other provisions for risks and charges	**12,446**	**6,352**
2.1 legal disputes	7,696	4,802
2.2 personnel expenses	783	688
2.3 other	3,967	862
TOTAL	**12,446**	**6,352**

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

The item "Other" mainly reports a penalty requested by ICBPI of €1,550 thousand for the early termination of the contract for Custodian Bank of the National Pension Fund for Mutual Bank Employees on the basis of the commitments undertaken by the Bank in respect of ICBPI at the time of the disposal of the Custodian Bank operations. the remainder is represented by other risks associated with the electronic money segment and other commitments to investees.

12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGE FOR THE PERIOD

	RETIREMENT PROVISIONS	OTHER PROVISIONS	TOTAL AT 31/12/2016
A. Opening balance	**-**	**6,352**	**6,352**
B. Increases	**-**	**20,817**	**20,817**
B.1 Provisions for the year	-	6,517	6,517
B.2 Changes due to passage of time	-	5	5
B.3 Changes due to changes in the discount rate	-	1	1
B.4 Other increases	-	14,293	14,293
C. Decreases	**-**	**14,722**	**14,722**
C.1 Use during the period	-	695	695
C.2 Changes due changes in the discount rate	-	-	-
C.3 Other decreases	-	14,027	14,027
D. Closing balance	**-**	**12,446**	**12,446**

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	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Revocatory actions	2,947	-	2,514	5,461	2,947
Litigation and disputes	2,717	14,315	17,800	6,202	2,717
Loyalty bonus	688	38	133	783	688
CLOSING BALANCE	**6,352**	**14,353**	**20,447**	**12,446**	**6,352**

As regards revocatory actions, the dispute concerns payments made by Giacomelli in respect of two pool loans. The liquidator appealed two rulings of the court of first instance in 2013 that essentially upheld the Bank's claims.

As regard the two proceedings under way before the Court of Appeals of Bologna, hearings for the final pleadings have been set for November 22, 2016 (Iccrea pool) and April 18, 2017 (Efibanca pool). the first of these ruling of the Court of Appeals of Bologna overturned the trial court ruling, sentencing the Bank to make full restitution of payments received, following which an additional €2,514 thousand in provisions were recognized.

The change associated with the provision for litigation and disputes mainly reflects the merger of Iccrea Holding into Iccrea Banca. More specifically, the €14,315 thousand in uses mainly regard the commitment undertaken at the time of the disposal of BCC Vita to the Cattolica Group, which amounts to €13,796 thousand. On March 28, 2017 the amount of the indemnity was agreed at €781.3 thousand, with the difference being reversed to profit or loss for the year. For more on the main provisions, see section 12.1.

SECTION 13 - REDEEMABLE SHARES – ITEM 140

There were no such shares as of the reporting date.

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

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

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

At December 31, 2016 Iccrea Bank held a residual 569,464 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €30,067,699.20.

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

	ORDINARY	OTHER
A. Shares at the start of the year	**420,000**	**-**
- fully paid	420,000	-
- partially paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in circulation: opening balance	**420,000**	**-**
B. Increases	**22,534,576**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	22,285,487	-
B.2 Sales of own shares	249,089	-
B.3 Other changes	-	-
C. Decreases	**1,238,553**	**-**
C.1 Cancellation	420,000	-
C.2 Purchase of own shares	818,553	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**21,716,023**	**-**
D.1 Treasury shares(+)	569,464	-
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.
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, 2016 Iccrea Bank held a residual 569,464 shares with a par value of €51.65 each, which were repurchased at a price of €52.80 for a total of €30,067,699.20.

14.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €391,786 thousand and include: the legal reserve (€48,201 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€325,999 thousand), a reserve (€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	(30,068)				
Reserves:					
a) legal reserve	48,201	B	48,201		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	325,999	A – B – C	325,999		
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	19,563		–		
b) cash flow hedges	(2,405)		–		
c) actuarial gains (losses) on defined-benefit plans	(1,970)				
Valuation reserves: (Law 342 of 22/11/2000)	52,062	A – B – C (**)	52,062		
Net profit for the period	21,084				
TOTAL	**1,605,843**				

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

14.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

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

14.6 OTHER INFORMATION

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1) Financial guarantees issued	**145,582**	**455,781**
a) Banks	133,331	385,253
b) Customers	12,251	70,528
2) Commercial guarantees issued	**49,628**	**50,187**
a) Banks	49,628	50,187
b) Customers	-	-
3) Irrevocable commitments to disburse funds	**1,764,801**	**2,858,302**
a) Banks	542,937	2,011,799
i) certain use	265,132	1,723,815
ii) uncertain use	277,805	287,984
b) Customers	1,221,864	846,503
i) certain use	1,221,864	646,503
ii) uncertain use	-	200,000
4) Commitments underlying credit derivatives: sales of protection	**15,000**	**15,000**
5) Assets pledged as collateral for third-party debts	**-**	**18,057**
6) Other commitments	**300**	**117,193**
TOTAL	**1,975,311**	**3,514,520**

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Financial assets held for trading	61,035	-
2. Financial assets at fair value	-	-
3. Financial assets available for sale	3,523,670	5,094,568
4. Financial assets held to maturity	1,600,390	1,676,201
5. Due from banks	258,164	204,493
6. Loans to customers	1,445,400	795,023
7. Property and equipment	-	-

The item includes securities deposited as collateral with the Bank of Italy in the amount of €107,040 thousand, to secure settlement of securities and derivatives in the amount of €2,072 thousand, for repurchase agreements in the amount of €4,719,682 thousand and for Eurosystem funding operations in the amount of €356,300 thousand. The table also reports cash collateral delivered in the amount of €260,024 thousand and cash committed for default funds and margins paid in the amount of €1,443,540 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.

	TOTAL AT 31/12/2016
1. Order execution on behalf of customers	**150,865,232**
a) Purchases	79,131,450
1. Settled	78,349,788
2. Not yet settled	781,662
b) Sales	71,733,782
1. Settled	70,835,111
2. Not yet settled	898,671
2. Asset management	**-**
a) Individual	-
b) Collective	-
3. Securities custody and administration	**276,549,818**
a) Third-party securities held as part of custodian bank services	
(excluding asset management)	81,143
1. Securities issued by reporting entity	-
2. Other securities	81,143
b) Other third-party securities on deposit (excluding asset management): other	109,617,835
1. Securities issued by reporting entity	4,073,004
2. Other securities	105,544,831
c) Third-party securities deposited with third parties	105,689,466
d) Securities owned by bank deposited with third parties	61,161,374
4. Other transactions	**-**

5. FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS OR GOVERNED BY MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

	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 31/12/2016 (f=c-d-e)	NET AMOUNT 31/12/2015
				FINANCIAL INSTRUMENTS (d)	CASH COLLATERAL RECEIVED (e)		
1. Derivatives	275,695	1,473	274,222	80,662	-	193,560	389,172
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL AT 31/12/2016	**275,695**	**1,473**	**274,222**	**80,662**	**-**	**193,560**	**x**
TOTAL AT 31/12/2015	**299,311**	**-**	**299,311**	**110,455**	**-**	**x**	**389,172**

6. 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 31/12/2016 (f=c-d-e)	NET AMOUNT 31/12/2015
				FINANCIAL INSTRUMENTS (d)	CASH COLLATERAL RECEIVED (e)		
1. Derivatives	380,377	48	380,329	85,211	124,057	171,061	182,671
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL AT 31/12/2016	**380,377**	**48**	**380,329**	**85,211**	**124,057**	**171,061**	**x**
TOTAL AT 31/12/2015	**446,459**	**-**	**446,459**	**121,947**	**141,841**	**x**	**182,671**

Part C

Information on the income statement

SECTION 1 - INTEREST – ITEMS 10 AND 20

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

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

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

		DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1	Financial assets held for trading	1,139	-	2,602	**3,741**	**10,717**
2	Financial assets available for sale	34,982	-	-	**34,982**	**59,271**
3	Financial assets held to maturity	14,615	-	-	**14,615**	**33,184**
4	Due from banks	55,284	27,053	-	**82,337**	**125,540**
5	Loans to customers	16	28,772	-	**28,788**	**29,332**
6	Financial assets at fair value	1,489	-	-	**1,489**	**5,154**
7	Hedging derivatives	X	X	35	**35**	**11,575**
8	Other assets	X	X	66,364	**66,364**	**770**
	TOTAL	**107,524**	**55,825**	**69,001**	**232,350**	**275,543**

1.2 INTEREST AND SIMILAR INCOME: DIFFERENCES ON HEDGING TRANSACTIONS

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. Positive differences on hedging transactions:	16,903	22,896
B. Negative differences on hedging transactions:	(16,868)	(11,321)
C. BALANCE (A-B)	**35**	**11,575**

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Debt securities	-	-
2. Due from banks	844	385
3. Loans to mutual banks	699	876
4. Loans to customers	45	18
TOTAL	**1,588**	**1,279**

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	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Due to central banks	(3,657)	X	-	**(3,657)**	**(9,006)**
2. Due to banks	(19,668)	X	-	**(19,668)**	**(28,339)**
3. Due to customers	(79)	X	-	**(79)**	**(5,312)**
4. Securities issued	X	(109,975)	-	**(109,975)**	**(126,818)**
5. Financial liabilities held for trading	(564)	-	-	**(564)**	**(414)**
6. Financial liabilities carried at fair value	-	(5,643)	-	**(5,643)**	**(18,282)**
7. Other liabilities and provisions	X	X	(42,541)	**(42,541)**	**(4,684)**
8. Hedging derivatives	X	X	-	**-**	**-**
TOTAL	**(23,968)**	**(115,618)**	**(42,541)**	**(182,127)**	**(192,855)**

1.5 INTEREST AND SIMILAR EXPENSE: DIFFERENCES ON HEDGING TRANSACTIONS

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

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

		TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1.	Due to banks	(468)	(714)
2.	Due to mutual banks	(755)	(543)
3.	Due to customers	-	-
	TOTAL	**(1,223)**	**(1,257)**

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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
a) guarantees issued	**160**	**290**
b) credit derivatives	**-**	**-**
c) management, intermediation and advisory services:	**23,296**	**26,458**
1. trading in financial instruments	7,996	9,611
2. foreign exchange	197	206
3. asset management		-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	7,991	8,517
5. depository services	-	-
6. securities placement	2,894	4,494
7. order collection and transmission	1,142	1,353
8. advisory services	3,076	2,277
8.1 concerning investments	-	-
8.2 concerning financial structure	3,076	2,277
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other	-	-
d) collection and payment services	**46,122**	**45,542**
e) servicing activities for securitizations	**-**	**-**
f) services for factoring transactions	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading systems	**-**	**-**
i) holding and management of current accounts	**254**	**249**
j) other services	**294,446**	**311,160**
TOTAL	**364,278**	**383,699**

"Other services" mainly regard electronic money.

2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
a) own branches:	**2,894**	**4,494**
1. asset management	-	-
2. securities placement	2,894	4,494
3. third-party services and products	-	-
b) off-premises distribution:	-	-
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-
c) other distribution channels:	-	-
1. asset management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
a) guarantees received	**(2)**	**(2)**
b) credit derivatives	**-**	**-**
c) management and intermediation services:	**(8,089)**	**(10,255)**
1. trading in financial instruments	(1,295)	(3,123)
2. foreign exchange	(56)	(64)
3. asset management:		-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(4,186)	(3,319)
5. placement of financial instruments	(2,552)	(3,749)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**(5,800)**	**(5,671)**
e) other services	**(222,914)**	**(240,404)**
TOTAL	**(236,805)**	**(256,332)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

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

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
		DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS
A.	Financial assets held for trading	27	-	8	-
B.	Financial assets available for sale	1,907	-	223	-
C.	Financial assets at fair value	-	-	-	-
D.	Equity investments	20,843	X	-	X
	TOTAL	**22,778**	**-**	**231**	**-**

The increase essentially reflect the merger of Iccrea Holding into Iccrea Banca. For more details, please see table 10.2 Equity investments under assets in these notes to the financial statements.

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

The item reports the overall difference in respect of:

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

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

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	CAPITAL GAINS (A)	TRADING PROFITS (B)	CAPITAL LOSSES (C)	TRADING LOSSES (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
1. Financial assets held for trading	**564**	**23,498**	**(1,113)**	**(2,834)**	**20,116**
1.1 Debt securities	538	22,800	(1,100)	(2,603)	19,635
1.2 Equity securities	24	666	(13)	(93)	584
1.3 Units in collective investment undertakings	2	32	-	(138)	(104)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**(943)**	**-**	**(943)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables		-	(943)	-	(943)
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(40,481)**
4. Derivatives	**26,632**	**142,549**	**(34,128)**	**(140,776)**	**37,292**
4.1 Financial derivatives:	26,632	142,549	(34,128)	(140,776)	37,292
- on debt securities and interest rates	19,387	132,720	(29,128)	(128,952)	(5,973)
- on equity securities and equity indices	502	355	(123)	(756)	(21)
- on foreign currencies and gold	X	X	X	X	43,016
- other	6,743	9,474	(4,878)	(11,068)	270
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**27,196**	**166,047**	**(36,184)**	**(143,609)**	**15,984**

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

The item reports the overall difference in respect of:

a) the outcome of the measurement of fair value hedges;
b) the outcome of the measurement of the financial assets and liabilities covered by fair value hedges;
c) the positive or negative differences and margins on hedge derivatives other than those reported under interest.

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

		TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A.	**Gain on:**		
A.1	Fair value hedges	8,225	20
A.2	Hedged financial assets (fair value)	38,438	12,405
A.3	Hedged financial liabilities (fair value)	12	903
A.4	Cash flow hedges	3,692	4,778
A.5	Assets and liabilities in foreign currencies	-	-
TOTAL INCOME ON HEDGING ACTIVITIES (A)		**50,367**	**18,106**
B.	**Loss on:**		
B.1	Fair value hedges	(38,281)	(10,407)
B.2	Hedged financial assets (fair value)	(7,070)	(1,900)
B.3	Hedged financial liabilities (fair value)	(387)	(610)
B.4	Cash flow hedges	(83)	(177)
B.5	Assets and liabilities in foreign currencies	(2,974)	(4,947)
TOTAL EXPENSE ON HEDGING ACTIVITIES (B)		**(48,795)**	**(18,041)**
C.	**NET GAIN (LOSS) ON HEDGING ACTIVITIES (A - B)**	**1,573**	**65**

The amounts regard the following transactions:

- hedges of Italian government BTPs, both fixed rate and inflation-indexed, using asset swaps;
- hedges of 4 bonds issued by the Bank using interest rate swaps and interest rate options;
- hedges of 4 U.S. dollar bonds issued by the Bank using cross currency interest rate swaps;
- hedges of loan to BCC Solutions using interest rate swaps;
- hedges of treasury deposits using overnight indexed swaps;
- hedges of cash flows on inflation-indexed Italian government BTPs;
- macro-hedges of portfolios of deposits using overnight indexed swaps;
- hedges of Italian government CTZs using overnight indexed swaps.
- hedge of 1 Banca IMI bond using an asset swap.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or liabilities other than those held for trading or designated as at fair value.

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	TOTAL AT 31/12/2016			TOTAL AT 31/12/2015		
	GAINS	LOSSES	NET GAIN (LOSS)	GAINS	LOSSES	NET GAIN (LOSS)
Financial assets						
1. Due from banks	106	(45)	61	32	(1)	31
2. Loans to customers	-	-	-	3,663	-	3,663
3. Financial assets available for sale	129,480	(47,729)	81,751	37,891	(10,221)	27,670
3.1 Debt securities	83,654	(47,729)	35,925	37,891	(10,221)	27,670
3.2 Equity securities	45,826	-	45,826	-	-	-
3.3 Units in collective investment undertakings	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
TOTAL ASSETS	**129,586**	**(47,774)**	**81,812**	**41,586**	**(10,222)**	**31,364**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	433	(4,104)	(3,671)	270	(8,672)	(8,402)
TOTAL LIABILITIES	**433**	**(4,104)**	**(3,671)**	**270**	**(8,672)**	**(8,402)**

SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE – ITEM 110

This section reports the positive or negative balance between gains and losses on financial assets/liabilities at fair value and the operationally connected instruments for which the fair value option has been exercised, including the impact of the fair value measurement of such instruments (see also section 3 of assets and section 5 of liabilities).

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

	CAPITAL GAINS (A)	PROFITS ON REALIZATION (B)	CAPITAL LOSSES (C)	LOSSES ON REALIZATION (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
1. Financial assets		-	**(420)**	(581)	**(1,001)**
1.1 Debt securities	-	-	(420)	(581)	(1,001)
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**4,501**	**-**	**-**	**4,501**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	4,501	-	-	4,501
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	
4. Financial and credit derivatives	**-**	**-**	**(2,401)**		**(2,401)**
TOTAL AT 31/12/2016		**4,501**	**(2,821)**	**(581)**	**1,099**

SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

This item reports the balance of writedowns and writebacks in respect of the impairment of loans to customers and banks, financial assets available for sale, financial assets held to maturity and other financial transactions.

8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT: COMPOSITION

	LOSSES (1)			RECOVERIES (2)				TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**2,923**	**-**	**-**	**2,923**	**114**
- Loans	-	-	-	-	2,923	-	-	2,923	114
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	**-**	**(482)**	**(101)**	**313**	**1,759**	**-**	**238**	**1,727**	**634**
Impaired receivables acquired	-	-	-	-	-	-	-	-	
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other receivables	-	(482)	(101)	313	1,759	-	238	1,727	
- Loans		(482)	(101)	313	1,759		238	1,727	634
- Debt securities	-	-	-	-	-	-	-	-	-
C. TOTAL		**(482)**	**(101)**	**313**	**4,682**		**238**	**4,650**	**748**

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.

The writebacks associated with amounts due from banks relate to the collection of the receivable from the Icelandic bank Landsbanki Island hf., which had been fully written off in previous periods.

8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

	LOSSES (1)		RECOVERIES (2)		TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
	SPECIFIC		SPECIFIC			
	WRITEOFFS	OTHER	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(3,802)	-	-	(3,802)	-
C. Units in CIUs	-	(15,331)	-	-	(15,331)	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. TOTAL		**(19,133)**			**(19,133)**	

The figure for equity securities regards to the Cattolica securities, while the figure for units in CIUs includes €5,620 thousand in respect of the Securis funds and €9,711 thousand for Fondo Atlante.

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)				TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER	PORTFOLIO	A	B	A	B		
A. Guarantees issued	-	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Others	-	(2,714)	-	-	-	-	92	(2,622)	(4,189)
E. TOTAL		**(2,714)**					**92**	**(2,622)**	**(4,189)**

"Losses" reports amounts associated with the mutual bank deposit guarantee fund for the division and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

SECTION 9 - ADMINISTRATIVE EXPENSES – ITEM 150

In addition to expenses in respect of employees, personnel expenses include:

- expenses for Bank employees seconded to other companies and the related recovery of costs;
- expenses in respect of persons hired on atypical contracts;
- reimbursements of expenses for employees of other companies seconded to the Bank;
- the compensation of directors and members of the Board of Auditors.

9.1 PERSONNEL EXPENSES: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1) Employees	**(91,225)**	**(62,956)**
a) wages and salaries	(53,180)	(43,258)
b) social security contributions	(14,121)	(11,691)
c) termination benefits	(1,232)	(1,075)
d) pensions	-	-
e) allocation to employee termination benefit provision	(275)	(240)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution		-
- defined benefit	-	-
g) payments to external pension funds:	(4,599)	(3,628)
- defined contribution	(4,599)	(3,628)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(17,818)	(3,064)
2) Other personnel	**(152)**	**(26)**
3) Board of Directors and members of Board of Auditors	**(1,807)**	**(700)**
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	**5,295**	**2,610**
6) Reimbursement of expenses for third-party employees seconded to the Company	**(4,698)**	**(1,258)**
TOTAL	**(92,587)**	**(62,330)**

The increase mainly reflects two events:

- the merger of Iccrea Holding into Iccrea Banca;
- the charges associated with the early retirement incentives for employees.

9.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Employees:	**812**	**685**
a) senior management	43	16
b) middle management	398	306
c) other employees	372	363
Other personnel	**11**	**6**

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 and training courses.

9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Information technology	**(79,284)**	**(63,473)**
Property and movables	**(16,593)**	**(9,279)**
Rental and fees	(16,593)	(8,509)
Cleaning	-	(487)
Security	-	(283)
Goods and services	**(12,437)**	**(16,205)**
Telephone and data transmission	(4,510)	(4,210)
Postal	(4,824)	(5,602)
Valuables transport and counting	(1,264)	(51)
Electricity, heating and water	(492)	(1,475)
Transportation	(982)	(1,174)
Office supplies and printed materials	(365)	(3,430)
Subscriptions, magazines and newspapers	-	(263)
Professional services	**(22,922)**	**(18,231)**
Professional fees	(12,681)	(9,357)
Audit fees	(555)	(221)
Legal and notary costs	(2,155)	(1,429)
Court costs, information and title searches	(1)	(161)
Insurance	(908)	(1,219)
Administrative services	(6,622)	(5,844)
Advertising and entertainment	**(4,730)**	**(2,875)**
Association dues	**(4,309)**	**(3,366)**
Charity	-	-
Other	**(1,850)**	**(1,874)**
Indirect taxes and duties	**(69,170)**	**(69,811)**
Stamp duty	(13,741)	(12,412)
Long-term loan tax - Pres. Decree 601/73	-	(1)
Municipal property tax	-	-
Duties on stock exchange contracts	(9)	-
Other indirect taxes and duties*	(55,420)	(57,398)
TOTAL	**(211,295)**	**(185,114)**

* The item includes the ordinary and special contributions to the National Resolution Fund in the amount of €55,392 thousand.

The increase essentially reflects the merger with Iccrea Holding and higher IT costs.

During the year, the Bank supported charity initiatives, using the provision established by the Board of Directors for this purpose in the total amount of €207 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

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Net provisions for risks and charges	**7,147**	**(212)**

SECTION 11 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT – ITEM 170

This section reports the balance of writedowns and writebacks of property and equipment.

11.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	DEPRECIATION (A)	WRITEDOWNS FOR IMPAIRMENT (B)	WRITEBACKS (C)	NET ADJUSTMENT (A + B - C)
A. Property and equipment				
A.1 owned	(2,992)	-	-	(2,992)
- operating assets	(2,992)	-	-	(2,992)
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
TOTAL	**(2,992)**			**(2,992)**

SECTION 12 - NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 180

This section reports the balance of writedowns and writebacks of intangible assets.

12.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	AMORTIZATION (A)	WRITEDOWNS FOR IMPAIRMENT (B)	WRITEBACKS (C)	NET ADJUSTMENTS (A + B - C)
A. Intangible assets	(5,658)	-	-	(5,658)
A.1 owned	(5,658)	-	-	(5,658)
- generated internally by the Bank	-	-	-	
- other	(5,658)	-	-	(5,658)
A.2 acquired under finance leases	-	-	-	
TOTAL	**(5,658)**			**(5,658)**

SECTION 13 – OTHER OPERATING EXPENSES/INCOME – ITEM 190

This item reports expenses and income not allocable to other accounts.

13.1 OTHER OPERATING EXPENSES: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Other charges	118	293
Total	**118**	**293**

13.2 OTHER OPERATING INCOME: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Property rental income		21
Recoveries:		
- Stamp duty	10,730	9,904
- Tax on loan transactions	34	34
Revenues from Milano Finanza Web services	462	629
Revenues for personnel administration services	629	706
Insourcing revenues	7,419	6,057
Other income	10,237	2,955
TOTAL	**29,511**	**20,306**

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

14.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total at 31/12/2016	Total at 31/12/2015
A. Income		
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expense	**(1,960)**	**-**
1. Writedowns	-	-
2. Impairment losses	(1,960)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(1,960)**	

For more details, please see section 10.5 under assets of these notes to the financial statements.

SECTION 15 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 220

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

SECTION 16 - VALUE ADJUSTMENTS OF GOODWILL – ITEM 230

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

SECTION 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

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

SECTION 18 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 260

The item reports the tax liability – equal to the balance of current taxes and deferred taxes – in respect of income for the period.

18.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

		TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1.	Current taxes (-)	(2,056)	(9,341)
2.	Changes in current taxes from previous periods (+/-)	2,796	587
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 (+/-)	16,989	29
5.	Change in deferred tax liabilities (+/-)	1,144	1,144
6.	**INCOME TAXES FOR THE PERIOD (-) (-1+/-2+3+3 bis+/-4+/-5)**	**18,873**	**(7,581)**

18.2 RECONCILIATION OF THEORETICAL TAX LIABILITY AND ACTUAL TAX LIABILITY RECOGNIZED

	I.R.E.S.		I.R.A.P.	
	TAXABLE INCOME	TAX	TAXABLE INCOME	TAX
Net profit (loss) for the period before tax	**2,211**			
Theoretical tax liability (27.5%)		**(608)**		
Difference between value of production and production costs			**89,652**	
Theoretical tax liability (5.57%)				**(4,994)**
Temporary differences taxable in subsequent periods			-	-
Temporary differences deductible in subsequent periods	66,351	(18,246)	-	-
Reversal of temporary differences of previous periods				
Reversal of deductible temporary differences	(20,060)	5,517	(33)	2
Reversal of taxable temporary differences	4,161	(1,144)	-	-
Differences that will not reverse in subsequent years:				
Permanent decreases in taxable income	(72,576)	19,958	(59,129)	3,293
Permanent increases in taxable income	17,614	(4,844)	17,775	(990)
Taxable income	**(2,299)**			
Current income taxes		**633**		
Taxable income for I.R.A.P purposes			**48,265**	
Current I.R.A.P liability				**(2,689)**

SECTION 19: PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 280

This item reports the positive or negative balance of income (interest, fees and commissions, etc.) and charges (interest expense, etc.) in respect of groups of assets and liabilities (disposal groups)held for sale, net of current and deferred taxation.

19.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION

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

19.2 BREAKDOWN OF INCOME TAXES FOR DISPOSAL GROUPS HELD FOR SALE

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

SECTION 20 – OTHER INFORMATION

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

SECTION 21 – EARNINGS PER SHARE

21.1 AVERAGE NUMBER OF ORDINARY SHARES IN DILUTED SHARE CAPITAL

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

21.2 OTHER INFORMATION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
Net profit for the year	21,084,184	9,245,328
Distributable income	-	9,030,000
Average number of ordinary shares in circulation	22,285,487	420,000
Earnings per share	0.00	22.01
Distributable income per share	0.00	21.50

The above figures are reported in euros

Part D

Comprehensive income

PART D – COMPREHENSIVE INCOME

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10.	**Net profit (loss) for the period**	X	X	21,084,184
	Other comprehensive income not recyclable to profit or loss			-
20.	**Property and equipment**	-	-	-
30.	**Intangible assets**	-	-	-
40.	**Defined-benefit plans**	(620,217)	170,560	(449,657)
50.	**Non-current assets held for sale**	-	-	-
60.	**Valuation reserves of equity investments accounted for with equity method**	-	-	-
	Other comprehensive income recyclable to profit or loss			-
70.	**Hedging of investments in foreign operations:**	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
80.	**Foreign exchange differences:**	-	-	-
	a) value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedges:**	(2,351,857)	777,759	(1,574,098)
	a) fair value changes	1,257,810	(415,958)	841,852
	b) reversal to income statement	(3,609,667)	1,193,717	(2,415,950)
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	(47,345,861)	15,930,080	(31,415,781)
	a) fair value changes	(6,207,032)	2,271,827	(3,935,205)
	b) reversal to income statement	(41,138,829)	13,658,254	(27,480,575)
	- impairment adjustments	195,066	(10,865)	184,201
	- gain/loss on realization	(41,333,894)	13,669,119	(27,664,776)
	c) other changes			
110.	**Non-current assets held for sale:**	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
120.	**Valuation reserves of equity investments accounted for with equity method (pro rata):**	-	-	-
	a) fair value changes	-	-	-
	b) reversal to income statement	-	-	-
	- impairment adjustments	-	-	-
	- gain/loss on realization	-	-	-
	c) other changes	-	-	-
130.	**Total other comprehensive income**	(50,317,935)	16,878,399	(33,439,536)
140	**Comprehensive income (item 10+130)**	(50,317,935)	16,878,399	(12,355,352)

Part E

Risks and risk management policies

PART E – RISKS AND RISK MANAGEMENT POLICIES

INTRODUCTION

The Iccrea Group attaches great importance to controlling risks and to control systems, which are essential to ensuring the reliable and sustainable generation of value, preserving a sound financial position over time, and enabling effective management of assets and liabilities, including in respect of its core business of supporting and providing services to the mutual banks and their customers.

ORGANIZATION OF RISK MANAGEMENT

In recent years, the Group has undertaken a gradual process to upgrade its methods and tools for managing credit, financial and operational risks, bringing the system into line with external regulations and operational and internal monitoring needs. In order to increase the effectiveness and efficiency of internal controls and respond to changes in the regulatory environment and the organizational, operational and corporate structure of the Group, in 2016 we completed a review of governance arrangements and the associated structure of the second-level control units (Risk Management, Compliance and Anti-Money Laundering). The main changed involved:

- a revision of the CRO area, which retained its powers and responsibilities in the Risk Management field, including IT risk, but with the reassignment of responsibility for managing risks associated with compliance, money-laundering and terrorist financing to another unit;
- the establishment of the CCO area, reporting directly to the Board of Directors of the Parent Company, to manage compliance risk and money-laundering and terrorist financing risk.

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

At the Parent Company, the CRO area is organized into four units (this is the organizational situation at December 31, 2016, which does not reflect the more recent organizational fine-tuning approved by the Board at its meeting of January 27, 2017):

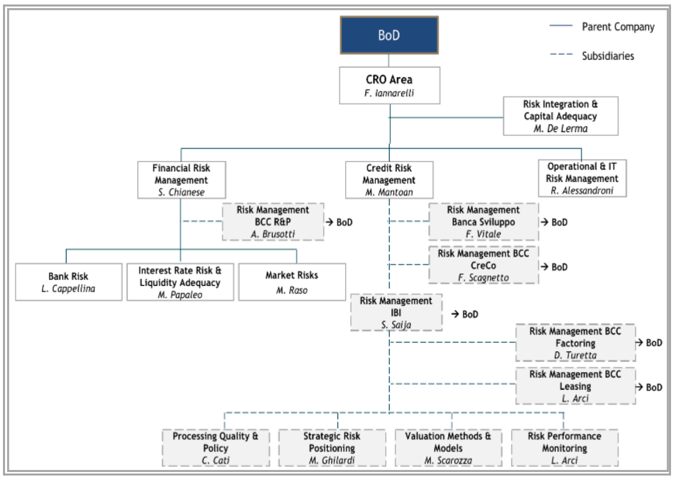
- Risk Integration & Capital Adequacy;
- Financial Risk Management;
- Credit Risk Management;
- Operational & IT Risk Management

Under the governance arrangements, the units at the subsidiaries, which form part of the staff structure supporting their respective boards of directors, report functionally to the CRO area on the basis of the special characteristics of the operations of each subsidiary, creating segments by main line of business.
More specifically,

- the Risk Management units of the subsidiaries report functionally to:
  - the Credit Risk Management unit of the Parent Company for Iccrea BancaImpresa SpA, Banca Sviluppo SpA, BCC Credito Consumo SpA, BCC Lease SpA and BCC Factoring SpA;
  - the Financial Risk Management unit of the Parent Company for BCC Risparmio e Previdenza SGRpA.

The Operational & IT Risk Management unit operates as a specialized hub for the entire Group, with responsibility for providing guidance and technical support to the risk management units of all Group companies in the area of operational and IT risks.

The following chart sets out the organizational structure of the new CRO area as at December 31, 2016.



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;
- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:
  - develops risk measurement and assessment methods and models;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible;
  - identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
  - analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement;
  - identifies any needs for fine tuning/corrective or evolutionary maintenance of the assumption and management framework for the risks for which it is responsible, providing support – within the scope of its duties – in implementing the associated actions;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (capital absorption, ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining strategic policy and risk policy and the associated implementation of those policies;
  - assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The ICCREA Banking Group devotes special attention to managing risk.

All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Iccrea Banking Group. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- the specification of risk limits;
- the daily/periodic monitoring of exposures (aggregate and others) with verification of compliance of approved limits and implementation of appropriate corrective measures where necessary;

- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the companies of the Iccrea Banking Group in the long term, systematic and independent Internal Auditing units, etc.).

RISK MANAGEMENT STRATEGIES AND PROCESSES

The Risk Management Process is a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, it provides for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

The Risk Management Process is structured into five phases, the sequentiality of which is itself an integral part of the macro-process. They represent the general organizational manifestation of the Group's risk assumption and management framework:

- **Risk identification (knowledge):** this requires that each process and/or operational and business activity that involves the assumption or management of risks on an ongoing basis provide for the identification of the underlying types of risk and the factors that drive them. This phase is especially significant at the start of new initiatives, in implementing new strategies (business, organizational and infrastructural development, etc.) but is also important in existing activities in the present of changes in the surrounding context (market, operational, regulatory, etc.).

- **Assessment/measurement of the identified risks (awareness):** this requires that the level of risk connected with the activities performed be assessed/measured for each of the various types of identified risk. This phase is especially important in understanding the dynamics of the risks involved and in forecasting (or estimating) their developments in relation to developments in the underlying risk drivers and the possibility of adverse events that could jeopardize achievement of expected results or generate losses. All of this is based on a methodological framework for the assessment/measurement of each type of risk assumed and/or managed. It must be defined and implemented consistently with the provisions of internal rules and in compliance with the applicable regulatory framework (and for this purpose recall the role played by company control functions, each in their respective area of responsibility).

- **Risk prevention and attenuation (strategy):** this consists in the ex-ante identification, both at the organization stage and the current execution of operational and business activities, of the possible approaches to preventing and attenuating adverse developments in the risks assumed and/or managed. After a cost/benefit analysis of the risk/return trade-off, this phase involves establishing the actions (or techniques) necessary to prevent the occurrence of adverse internal or external events or to attenuate the impact of an adverse event or development. Such actions are intended to guide the evolution of the possible risk scenarios underlying operations within the risk appetite levels established for the individual operating or business segment.

- **Monitoring and reporting (tracking and control):** this consists of the set of monitoring and ongoing assessment (measurement) activities tracking the dynamic evolution of the risks underlying operating and business activities in each segment, using methods consistent with the established methodological framework, providing for reporting at the frequency and levels established in the applicable internal rules for the segment, and functionally preliminary in terms of timeliness, accuracy and effectiveness to the decision-making process underlying the subsequent management and mitigation phase and for this purpose (recall the role played by company control functions, each in their respective area of responsibility).

- **Risk management and mitigation (reaction and proactivity):** this phase comprises the activities and actions that must be established for each operational and business segment to manage the development of the risks assumed, to mitigate any adverse impacts on expected results in the event of unfavorable actual or expected (estimated) developments, also providing for the constant monitoring of the results of the activities performed. The most important operational and business sectors perform entire corporate processes dedicated to these activities, with corresponding organizational arrangements specifically established for their performance. A critical success factor for the effectiveness of risk management and mitigation activities is the presence of a decision-making process to identify the activities themselves and their evolutionary/corrective maintenance that is soundly based on the results of the monitoring and reporting activities in the previous phase.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual subsidiaries. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the CRO area supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the risks for the Group companies.

The procedures for taking on credit risk, which are governed in the systems of powers and delegated authority currently in place at the subsidiaries, are developed within those companies on the basis of the specific characteristics of the activities they perform. The cardinal criterion adopted in structuring delegated powers is the establishment of a lending ceiling by risk class (regarding the various categories of counterparty, technical form of the credit, guarantees) assigned to each decision-making body.

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

The organizational unit of Iccrea Banca responsible for assuming and managing credit risk is the Loans department, which is responsible for developing – in conformity with the strategic objectives of the Bank – the operational plans for lending activities. In addition, it also manages – within the scope of its operational responsibilities - lending activities for the purpose of granting loans and operating credit in support of the operations of the various business lines as well as relations with correspondents abroad. It also plays a role, in coordination with the Risk Management unit, in managing the risks associated with granting loans and operating credit.

Within the Loans department, the Institutional Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and loans to bank counterparties. In addition, it manages exposures classified as impaired past due/overlimit or unlikely to be repaid, as well as registering/controlling loan positions in the information system.

In general, the Loans department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

Within the CRO area, the Bank Risk unit manages exposures in respect of banks and other financial intermediaries, managing monitoring systems and models for the assessment of bank creditworthiness and develops policy recommendations with regard to the assumption and management of risk. It is also responsible for second-level control of the risks assigned to it.

More specifically, the unit is responsible for promoting the adoption of procedures for assuming, managing and controlling credit risk designed to guarantee effective management of such risk in line with the principles set out in supervisory regulations and management requirements. The unit also produces independent reporting on such risks, participating in updating and developing rules governing credit risk, with particular regard to delegated powers and operational limits.

In order to manage credit risk, credit exposure is segmented into portfolios on the basis of the type of loan/credit facility and type of counterparty (mutual banks, other banks, ordinary customers).

Further segmentation is carried out within each customer segment on the basis of the technical form (current account overdrafts, loans, etc.) and maturity (short, medium and long term).

The credit process is organized into the following phases:

- Start of application processing: collection of data need to start the lending/loan revision process with a specific counterparty;
- Processing: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- Decision proposal: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- Authorization: approval of the decision by the decision-making body and start of authorized operations;
- Monitoring: tracking of specific performance indicators (performance controls) and structural assessment of the overall risk profile of the borrower (performance monitoring).

2.2 MANAGEMENT, MEASUREMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

Lending activities expose the Iccrea Banking Group to default risk, i.e. the risk of incurring a loss owing to the failure of a counterparty to perform its contractual obligations or as a result of a reduction in the credit quality attributed to the counterparty. This type of risk is a function of both the intrinsic solvency of the borrower and, through certain impact transmission mechanisms, the economic conditions of the market within which the borrower operates. Given our lending operations, the emergence of adverse macroeconomic or market conditions expose the Group to a general deterioration in asset quality and a general deterioration in the solvency of borrowers. This latter dynamic translates into an increase in positions classified as non-performing loans (NPLs), the direct impact of which is manifested in profit or loss as an increase in writedowns/impairment losses recognized for accounting purposes.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral). A special process in the lending sector is the management of credit risk mitigation techniques. For regulatory purposes, use of the latter is only permitted subject to specific conditions, which must be complied with for the duration of the guarantees and which determine their eligibility for use in reducing mandatory capital requirements. Accordingly, any inefficiency or ineffectiveness in the collateral management process may expose the Group to what prudential regulations call residual risk. The operations of Iccrea Banca are also characterized by exposures to financial instruments, such as financial and credit derivatives transacted on unregulated markets, repurchase transactions and transactions settled forward that generate counterparty risk and, consequently, a need to determine any additional capital requirement for such transactions (credit value adjustment – CVA).

MEASUREMENT AND VALUATION OF RISKS

For the purpose of calculating prudential requirements for credit risk, the Iccrea Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The measurement and valuation of credit risk is the responsibility of the CRO area and involves:

- measuring credit risk at the single entity/business unit level and at the Group level, considering both conditions of normal operations and stress scenarios;
- formalizing credit risk exposure limits for those with delegated powers, verifying the methodological consistency of the overall structure of those limits;
- monitoring the capacity of the risk limits in terms of the associated credit risk metrics at the individual business unit level and for the Group as a whole;

- defining and updating the methods and measurement models for credit risk, dialoguing with the risk control unites of the Group companies to agree methodological issues where appropriate.

The assessment framework is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "modules", called Structural and Performance. The assessment of counterparty creditworthiness begins with an analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A Risk Ceiling is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The Risk Ceiling takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite.

The Risk Ceiling is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the Risk Ceiling. Two warning thresholds are also specified, which if exceeded trigger the transmission of a report from Risk Management to the Loans department and/or senior management for corrective action and subsequent reporting to the Board of Directors.

RISK PREVENTION AND ATTENUATION

For each business line (Corporate, Financial Institutions, Retail), the Group has adopted a comprehensive system of arrangements and controls set out in the respective corporate policies that are consistent with the overall Risk Appetite Framework established by the Parent Company.

The operational units involved in lending processes are responsible for performing first-level controls, which are designed to assess credit risk in the loan application acceptance stage and to enable monitoring of borrower solvency over time and signal any irregularities.

More specifically, with regard to the *Financial Institutions* business line, the systematic oversight process performed by the business units involves assessing problem positions, tracking developments to ensure proper classification of exposures, and implementing consequent actions. It uses a specific application: BankAlert. The application generates daily key risk indicators for each segment of operations. These reports are generated with the same frequency (daily) to all business units that operate with banking counterparties.

MONITORING AND REPORTING

The Risk Management unit performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), processes and delegated powers with regard to the assumption and management of credit risk, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management department for RAF purposes and specific analysis of the Group's overall exposure to credit risk. The natural locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (appetite, tolerance and capacity), with compliance ensured by the monitoring and control activities of the CRO area.

Finally, the Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

Monitoring and reporting involves both business units and control units, in accordance with their respective duties. These activities include aggregate portfolio analysis and analysis of developments in individual positions.

The operational monitoring framework for the Financial Institutions business line consists of a comprehensive system of warning signals represented by Key Risk Indicators, which are drawn from monitoring indicators (financial indicators and internal company indicators) and thresholds specified using statistical analysis that defines alert status.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. ON the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the target/limit levels set in the RAS and the specific risk policies, respectively. The Risk Management department is also responsible for preparing periodic reports for management and the operating business units.

2.3 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, the Bank continued to enter into Credit Support Annex (CSA) arrangements with its main financial counterparties. At December 31, 2016 credit exposures in respect of transactions in derivatives were covered by 199 margin agreements (CSA), of which 65 with market counterparties and 134 with mutual bank industry counterparties.

As for repos, 10 GRMAs were entered into, of which 6 are active and operational with two counterparties.

2.4 IMPAIRED FINANCIAL ASSETS

PROCEDURES FOR CLASSIFYING ASSETS BY DEBTOR QUALITY

The Bank is equipped with regulatory/IT structures and procedures for loan management, classification and control.

In line with the provisions of the IASs/IFRSs, at every reporting date the presence of objective evidence of impairment is assessed for every instrument or group of financial instruments.

Objective evidence of the impairment of a financial asset or group of financial assets consists of observable data regarding the following events:

- significant financial difficulties of the debtor;
- breach of contractual agreements, such as default or delinquency in paying interest or principal;
- the lender, for economic or legal reasons associated with the borrower's financial difficulties, grants the debtor concessions that the lender would not otherwise have considered;
- a high probability of the debtor's entering bankruptcy or other financial reorganization;

- the disappearance of an active market for the financial asset as a result of the debtor's financial difficulties (a case not relevant for the current types of loans to banks/customers);
- the existence of evidence indicating a quantifiable decrease in estimated future cash flows for a group of assets, after initial recognition, even if such decrease cannot yet be ascribed to the individual position:
  - a reduction in the debtor's ability to discharge its liability in respect of the group of assets it holds;
  - international, national or local conditions that could give rise to default in respect of a group of receivables.

The above assessment is conducted with the support of special IT screening procedures on the basis of information from internal and external sources.

Within the scope of testing for the existence of objective evidence of impairment, non-performing loans are classified in the following categories:

- bad debts: loans to borrowers in a state of insolvency (even if bankruptcy has not been declared by a court) or in substantially equivalent situations, regardless of any expectations of loss formulated by the company;
- positions unlikely to be repaid: credit exposures other than bad debts to borrowers that the Bank believes are unlikely to discharge their credit obligations in full (principal and/or interest) without recourse to actions such as enforcement of guarantees;
- impaired past due/overlimit exposures: exposures other than bad debts or positions likely to be unpaid that as of the reporting date are past due/overlimit by more than 90 days and exceed a specified materiality threshold.

FORBORNE EXPOSURES

An additional classification is made for credit exposures that have been granted some form of forbearance, which are divided into:

- non-performing exposures with forbearance measures: depending on the circumstances, these represent a subset of bad debts, positions unlikely to be repaid or impaired past due/overlimit exposures; they do not represent a separate category of impaired assets;
- other exposures with forbearance measures, which correspond to forborne performing exposures and are therefore classified under performing exposures.

FACTORS ENABLING RECLASSIFICATION OF IMPAIRED EXPOSURES TO PERFORMING STATUS

Only the return to full solvency of the debtor permits restoration of performing status. This comprises:

- elimination of the entire exposure or repayment of arrears;
- regularization of the exposure.

ASSESSMENT OF THE ADEQUACY OF WRITEDOWNS

Loans are recognized at estimated realizable value. This value is obtained by deducting specific and general writedowns of principal and interest, net of any repayments, from the total amount disbursed.

Calculation of expected loss is based on analytical and statistical methodologies. The latter are used for personal loans classified as bad debts and for calculating normal risk.

The analytical assessment of non-performing positions is based on standard criteria approved by the Board of Directors that incorporate prudential assessments of any guarantees securing repayment.

In particular, impaired exposures are analytically evaluated on the basis of:

- forecast of future recovery of the credit position – with the exclusion of future losses that have not yet emerged – using different procedures depending on the type of loan:
  - for personal loans classified as bad debts the recovery forecast is determined using a statistical method based on stratification based on the age of the position, considering amounts collected and losses on past cases from which, with appropriate calculations, an estimated loss percentage can be determined for application to the entire existing portfolio;
  - for other loans, general writedowns based on statistical techniques that, using the values calculated for rates of default and non-recoverability, contribute to the calculation of a prudential coverage ratio;
- recovery times;
- expected realization of any guarantees, taking account of estimated collection/liquidation expenses, which must be incorporated into the expected future cash flows.

The writedown is recognized in the income statement as the difference between the initial carrying amount of the asset and the present value of the estimated recoverable cash flows, discounted at the original effective interest rate of the financial asset at the moment of classification as non-performing.

The original value of the receivable is written back in subsequent years if the reasons for the writedown no longer obtain.

Quantitative disclosures

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	BAD DEBTS	UNLIKELY TO BE REPAID	IMPAIRED PAST DUE EXPOSURES	UNIMPAIRED PAST DUE POSITIONS	OTHER UNIMPAIRED POSITIONS	TOTAL
1. Financial assets available for sale	-	-	-	-	5,151,451	5,151,451
2. Financial assets held to maturity	-	-	-	-	1,600,390	1,600,390
3. Due from banks	-	-	-	-	30,999,442	30,999,442
4. Loans to customers	18,478	1,400	76	1,569	4,160,325	4,181,848
5. Financial assets at fair value	-	-	-	-	14,559	14,559
6. Financial assets held for sale	-	-	-	-	-	-
TOTAL AT 31/12/2016	**18,478**	**1,400**	**76**	**1,569**	**41,926,167**	**41,947,690**
TOTAL AT 31/12/2015	**18,931**	**743**	**58**	**1,792**	**44,819,152**	**44,840,676**

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	-	-	-	5,151,451	-	5,151,451	5,151,451
2. Financial assets held to maturity	-	-	-	1,600,390	-	1,600,390	1,600,390
3. Due from banks	-	-	-	30,999,442	-	30,999,442	30,999,442
4. Loans to customers	56,519	36,564	19,955	4,162,661	768	4,161,893	4,181,848
5. Financial assets at fair value	-	-	-	X	X	14,559	14,559
6. Financial assets held for sale	-	-	-	-	-	-	-
TOTAL AT 31/12/2016	**56,519**	**36,564**	**19,955**	**41,913,944**	**768**	**41,927,735**	**41,947,690**
TOTAL AT 31/12/2015	**57,808**	**38,076**	**19,732**	**44,483,938**	**905**	**44,820,944**	**44,840,676**

	ASSETS WITH EVIDENTLY POOR CREDIT QUALITY		OTHER ASSETS
	CUMULATIVE LOSSES	NET EXPOSURE	NET EXPOSURE
1. Financial assets held for trading	-	-	419,671
2. Hedging derivatives	-	-	15,326
TOTAL AT 31/12/2016	**-**	**-**	**434,997**
TOTAL AT 31/12/2015	**-**	**-**	**410,807**

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

	GROSS EXPOSURE					SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS			
	UP TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to be repaid	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Impaired past due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other unimpaired assets	X	X	X	X	31,028,174	X	-	31,028,174
- of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A AT 31/12/2016	**-**	**-**	**-**	**-**	**31,028,174**	**-**	**-**	**31,028,174**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	876,606	X	-	876,606
TOTAL B AT 31/12/2016	**-**	**-**	**-**	**-**	**876,606**	**-**	**-**	**876,606**
TOTAL A+B AT 31/12/2016	**-**	**-**	**-**	**-**	**31,904,780**	**-**	**-**	**31,904,780**

A.1.4 ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS IMPAIRED POSITIONS

	BAD DEBTS	UNLIKELY TO BE REPAID	IMPAIRED PAST DUE EXPOSURES
A. Opening gross exposure	**114**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**-**	**-**	**-**
B.1 from performing credit exposures	-	-	-
B.2 transfers from other categories of impaired positions	-	-	-
B.3 other increases	-	-	-
C. Decreases	**114**	**-**	**-**
C.1 to performing credit exposures	-	-	-
C.2 writeoffs	-	-	-
C.3 collections	114	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired positions	-	-	-
C.7 other decreases	-	-	-
D. Closing gross exposure	**-**	**-**	**-**
- of which: exposures assigned but not derecognized	-	-	-

A.1.4 BIS ON-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: CHANGES IN GROSS FORBORNE EXPOSURES BY CREDIT QUALITY

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

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					SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS			
	UP TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	-	-	-	54,932	X	36,453	X	18,479
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to be repaid	247	-	1,185	78	X	110	X	1,400
- of which: forborne exposures	246	-	530	56	X	99	X	733
c) Impaired past due exposures	-	34	43	-	X	1	X	76
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past due exposures	X	X	X	X	1,573	X	4	1,569
- of which: forborne exposures	X	X	X	X	86	X	1	85
e) Other unimpaired exposures	X	X	X	X	10,989,467	X	764	10,988,703
- of which: forborne exposures	X	X	X	X	881	X	7	874
TOTAL A AT 31/12/2016	**247**	**34**	**1,228**	**55,010**	**10,991,040**	**36,564**	**768**	**11,010,227**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	1,367,325	X	-	1,367,325
TOTAL B AT 31/12/2016	**-**	**-**	**-**	**-**	**1,367,325**	**-**	**-**	**1,367,325**
TOTAL A+B AT 31/12/2016	**247**	**34**	**1,228**	**55,010**	**12,358,365**	**36,564**	**768**	**12,377,552**

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
A. Opening gross exposure	**56,756**	**878**	**60**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**217**	**923**	**77**
B.1 from performing credit exposures	-	760	-
B.2 transfers from other categories of impaired positions	216	57	-
B.3 other increases	1	106	77
C. Decreases	**2,041**	**291**	**60**
C.1 to performing credit exposures	-	-	-
C.2 writeoffs	29	-	-
C.3 collections	2,012	75	3
C.4 assignments	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired positions	-	216	57
C.7 other decreases	-	-	-
D. Closing gross exposure	**54,932**	**1,510**	**77**
- 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
A. Opening gross exposure	**786**	**708**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**226**	**626**
B.1 from performing credit exposures without forbearance	-	76
B.2 from performing credit exposures with forbearance	226	X
B.3 from impaired exposures with forbearance	X	-
B.4 other increases	-	550
C. Decreases	**180**	**367**
C.1 to performing credit exposures without forbearance	X	95
C.2 to performing credit exposures with forbearance	-	-
C.3 to impaired exposures with forbearance	X	226
C.4 writeoffs	-	-
C,5 collections	21	46
C.6 realization from disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	159	-
D. Closing gross exposure	**832**	**967**
- 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
A. Total opening adjustments	**37,939**	**-**	**135**	**118**	**2**	**2**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**400**	**-**	**11**	**4**	**1**	**-**
B.1 writedowns	382	-	2	2	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired positions	18	-	2	2	-	-
B.4 other increases	-	-	7	-	1	-
C. Decreases	**1,886**	**-**	**36**	**23**	**2**	**2**
C.1 writebacks from valuations	1,109	-	13	11	-	-
C.2 writebacks from collections	748	-	5	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 writeoffs	29	-	-	-	-	-
C.5 transfers to other categories of impaired positions	-	-	18	-	2	2
C.6 other decreases	-	-	-	12	-	-
D. Total closing adjustments	**36,453**	**-**	**110**	**99**	**1**	**-**
- 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	TOTAL AT 31/12/2016
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	BELOW B-		
A. On-balance-sheet exposures	**132,703**	**3,401**	**18,155,907**	**13,424**	**-**	**306**	**24,176,733**	**42,482,474**
B. Derivatives	**27,500**	**5,875**	**125,762**	**-**	**-**	**8**	**85,902**	**245,047**
B.1 Financial derivatives	27,500	5,875	125,762	-	-	8	70,902	230,047
B.2 Credit derivatives	-	-	-	-	-	-	15,000	15,000
C. Guarantees issued	**4,524**	**888**	**7,610**	**-**	**-**	**-**	**182,188**	**195,210**
D. Commitment to disburse	**58**	**121**	**99,166**	**-**	**-**	**779**	**1,674,455**	**1,774,579**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**42,672**	**42,672**
TOTAL	**164,785**	**10,285**	**18,388,445**	**13,424**	**-**	**1,093**	**26,161,950**	**44,739,982**

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

		COLLATERAL (1)				UNSECURED GUARANTEES (2)									TOTAL AT 31/12/2016 (1)+(2)
						CREDIT DERIVATIVES					GUARANTEES				
							OTHER DERIVATIVES								
	VALUE OF NET EXPOSURE	PROPERTIES - MORTGAGES	PROPERTIES - FINANCE LEASES	SECURITIES	OTHER ASSETS	CLN	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	OTHER	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	OTHER	
1. Secured on-balance-sheet credit exposures:															
1.1 fully secured	23,439,760	274	-	22,986,786	447,337	-	-	-	-	-	-	-	3,795	-	**23,438,192**
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially secured	1,716	1,500	-	127	-	-	-	-	-	-	-	-	-	-	**1,627**
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. Secured off-balance-sheet credit exposures:															
2.1 fully secured	193,887	-	-	187,178	-	-	-	-	-	-	-	-	6,471	-	**193,649**
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

A.3.2 SECURED CREDIT EXPOSURES TO CUSTOMERS

		COLLATERAL (1)				UNSECURED GUARANTEES (2)									
						CREDIT DERIVATIVES					GUARANTEES				
							OTHER DERIVATIVES								
	VALUE OF NET EXPOSURE	PROPERTIES - MORTGAGES	PROPERTIES - FINANCE LEASES	SECURITIES	OTHER ASSETS	CLN	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	OTHER	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	OTHER	TOTAL AT 31/12/2016 (1)+(2)
1. Secured on-balance-sheet credit exposures:															
1.1 fully secured	1,023,404	92,601	-	928,103	-	-	-	-	-	-	-	-	33	618	**1,021,355**
- of which: impaired	18,426	18,265	-	-	-	-	-	-	-	-	-	-	-	162	**18,427**
1.2 partially secured	1,979	1,323	-	-	-	-	-	-	-	-	-	-	-	-	**1,323**
- of which: impaired	311	311	-	-	-	-	-	-	-	-	-	-	-	-	**311**
2. Secured off-balance-sheet credit exposures:															
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
A. On-balance-sheet																		
A.1 Bad debts	-	-	X	-	-	X	-	2,324	X	-	-	X	13,647	27,088	X	4,832	7,041	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.2 Unlikely to be repaid	-	-	X	-	-	X	-	-	X	-	-	X	457	93	X	943	17	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	457	93	X	276	6	X
A.3 Impaired past due exposures	-	-	X	-	-	X	-	-	X	-	-	X	2	-	X	74	1	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.4 Unimpaired exposures	6,819,319	X	-	-	X	-	3,983,628	X	243	60,538	X	101	48,715	X	109	78,072	X	315
- of which: forborne exposures	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	959	X	8
TOTAL A	**6,819,319**	**-**	**-**	**-**	**-**	**-**	**3,983,628**	**2,324**	**243**	**60,538**	**-**	**101**	**62,821**	**27,181**	**109**	**83,921**	**7,059**	**315**
B. Off-balance-sheet																		
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	97,538	X	-	7	X	-	1,219,051	X	-	17	X	-	2,300	X	-	15,004	X	-
Total B	**97,538**	**-**	**-**	**7**	**-**	**-**	**1,219,051**	**-**	**-**	**17**	**-**	**-**	**2,300**	**-**	**-**	**15,004**	**-**	**-**
Total (A+B) at 31/12/2016	**6,916,857**	**-**	**-**	**7**	**-**	**-**	**5,202,679**	**2,324**	**243**	**60,555**	**-**	**101**	**65,121**	**27,181**	**109**	**98,925**	**7,059**	**315**
Total (A+B) at 31/12/2015	**9,023,392**	**-**	**-**	**34**	**-**	**-**	**4,668,967**	**2,759**	**353**	**60,905**	**-**	**101**	**91,391**	**28,090**	**85**	**180,634**	**7,227**	**366**

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
A. On-balance-sheet										
A.1 Bad debts	18,479	34,172	-	-	-	2,281	-	-	-	-
A.2 Unlikely to be repaid	1,400	110	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	76	1	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	10,945,143	752	34,280	-	10,849	16	-	-	-	-
TOTAL A	**10,965,098**	**35,035**	**34,280**	**-**	**10,849**	**2,297**	**-**	**-**	**-**	**-**
B. Off-balance-sheet										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	1,308,565	-	24,653	-	659	-	-	-	56	-
Total B	**1,308,565**	**-**	**24,653**	**-**	**659**	**-**	**-**	**-**	**56**	**-**
Total (A+B) at 31/12/2016	**12,273,663**	**35,035**	**58,933**	**-**	**11,508**	**2,297**	**-**	**-**	**56**	**-**
Total (A+B) at 31/12/2015	**13,944,717**	**36,265**	**77,396**	**-**	**2,991**	**2,716**	**-**	**-**	**219**	**-**

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
A. On-balance-sheet										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	30,797,372	-	212,766	-	14,769	-	1,229	-	2,038	-
TOTAL A	**30,797,372**	**-**	**212,766**	**-**	**14,769**	**-**	**1,229**	**-**	**2,038**	**-**
B. Off-balance-sheet										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to be repaid	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	792,812	-	60,278	-	539	-	3,025	-	10,672	-
Total B	**792,812**	**-**	**60,278**	**-**	**539**	**-**	**3,025**	**-**	**10,672**	**-**
Total (A+B) at 31/12/2016	**31,590,184**	**-**	**273,044**	**-**	**15,308**	**-**	**4,254**	**-**	**12,710**	**-**
Total (A+B) at 31/12/2015	**34,391,764**	**-**	**282,183**	**-**	**16,470**	**-**	**3,541**	**-**	**1,321**	**-**

B.4 LARGE EXPOSURES

a) Carrying amount	**57,244,358**
b) Risk-weighted amount	**786,228**
c) Number of positions	**49**

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	6,492	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The amount regards a debt security issued by the vehicle Lucrezia Securitization as part of the crisis resolution measures for Banca Padovana Credito Cooperativo in A.S. and BBC Irpina in A.S. The security matures on October 3, 2026 and has a yield of 1%.

C.3 INVOLVEMENT IN SPECIAL PURPOSE VEHICLES

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

C.4 NON-CONSOLIDATED SPECIAL PURPOSE VEHICLES

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

C.5 SERVICER ACTIVITIES – OWN SECURITIZATIONS - COLLECTIONS ON SECURITIZED ASSETS AND REDEMPTION OF SECURITIES ISSUED BY VEHICLE

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

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

Qualitative disclosures

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	31/12/2016	31/12/2015
A. On-balance-sheet assets	61,035	-	-	-	-	-	3,058,257	-	-	1,600,390	-	-	-	-	-	-	-	-	**4,719,682**	**2,807,916**
1. Debt securities	61,035	-	-	-	-	-	3,058,257	-	-	1,600,390	-	-	-	-	-	-	-	-	4,719,682	4,929,341
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total at 31/12/2016	**61,035**	**-**	**-**	**-**	**-**	**-**	**3,058,257**	**-**	**-**	**1,600,390**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,719,682**	**x**
of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X
Total at 31/12/2015	**-**	**-**	**-**	**-**	**-**	**-**	**3,253,140**	**-**	**-**	**1,676,201**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,929,341**	**x**
of which: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X

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 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
1. Due to customers	**61,166**	**-**	**2,990,658**	**1,620,371**	**-**	**-**	**4,672,195**
a) in respect of assets fully recognized	61,166	-	2,990,658	1,620,371	-	-	4,672,195
b) in respect of assets partially recognized	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**68,541**	**-**	**-**	**-**	**68,541**
a) in respect of assets fully recognized	-	-	68,541	-	-	-	68,541
b) in respect of assets partially recognized	-	-	-	-	-	-	-
Total at 31/12/2016	**61,166**	**-**	**3,059,199**	**1,620,371**	**-**	**-**	**4,740,736**
Total at 31/12/2015	**-**	**-**	**2,946,514**	**1,689,018**	**-**	**-**	**4,635,532**

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 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 matric of the market parameters. The model currently covers the following risk factors:

- interest rates;
- exchange rates;
- interest rate volatility.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

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 €0.67 million, with a minimum of €0.24 million and a maximum of €1.799 million (registered on June 24, 2016), 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 31, 2016, the VaR was €0.91 million.

Daily VaR on Trading Book	Notional Dec. 31, 2016	VaR Limit	Risk Profile
€\million			
Iccrea Banca	13,909	2.00	0.91

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK MANAGEMENT

GOVERNANCE AND ORGANIZATIONAL MODEL

In order to comply both with regulatory requirements and management needs, the Iccrea Banking Group began updating and evolving Group policy for managing interest rate risk on the banking book, which sets out guidelines, principles for prudent management, the roles and responsibilities of corporate bodies and operating units and control processes for interest rate risk on the banking book. The framework for managing and governing interest rate risk on the Iccrea Banking Group's banking book is based on a centralized model. Iccrea Banca is responsible for overall governance of financial operations and risk at the Group level since:

- it is responsible for setting the Group's policies for managing interest rate risk on the banking book;
- it measures and monitors the exposure to such risk at the centralized level;
- it manages such risk at the Group level;
- it defines and governs the internal transfer pricing system.

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;
- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of Risk Management, monitors and manages interest rate risk at the individual and consolidated level and verifies compliance with the limits set at the strategic planning stage.

Management of interest rate risk on the banking book is performed by the **Asset & Liability Management** (ALM) function, performed by the Finance unit, which in turn operates in two lines of business:

- **Capital Market operations**, which are performed by the Proprietary Finance and Trading unit. The latter is responsible for managing interest rate risk on the medium/long-term banking book originated by unsecured operations;
- **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: reprising risk, yield curve risk, basis risk and option risk.

RISK MEASUREMENT AND ASSESSMENT

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- **Current earnings approach**: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- **Economic value approach**: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book, construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. In this perspective, the analysis is conducted using a static “gone concern” approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- **Repricing gap**: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.
- **NII sensitivity**: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a "full revaluation" method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- **Duration gap**: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- **EVE sensitivity**: the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The stress tests are conducted for the two metrics:

- **EVE sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a static “gone concern” approach, which assumes the run-off of positions at maturity, with no substitution or rollover of items at maturity. The sensitivity of economic value is calculated as the difference between the present values of cash flows in the base scenario and those values recalculated in the assessment scenarios;

- **NII Sensitivity**: using a full revaluation approach with the adoption of risk-free yield curves. The analysis uses a dynamic "going concern" approach with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged. The metric quantifies the impact of changes in reference rates and/or spread components on net interest income.

The measures seek to quantify the exposure to interest rate risk attributable to each 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 Iccrea Banca, taking due account of RAS and Risk Limit indicators consistent with the policy-setting and coordination role attributed to the Bank as the Parent Company and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the interest rate risk management model adopted.

The 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. The policy review currently under way also provides for the introduction of limits for the business lines responsible for managing interest rate risk on the banking book, namely Capital Market and Money Market, which come under the ALM function.

The system of limits is also accompanied by a comprehensive system of arrangements and controls that contribute to defining the overall control model set out and formalized in the risk management policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- <u>Level I controls</u>, which are intended to ensure the correct registration and maintenance of transactions over time;
- <u>Level II controls</u>, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- <u>Level III controls</u>, 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.[1] At the operational level communication, between Business Line managers and Risk Management is carried out on an ongoing basis and in the periodic meetings of Finance Committees called by the General Manager.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined I accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department performs codified and formalized monitoring and reporting activities for all business lines within the RAF/RAS and the risk policies. On the basis of a specific calendar, Risk Management conducts measurements to quantify the risk profile, verifying compliance with the 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.

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 €19.7 million hedged by means of an interest rate swap (IRS);
- 2 fixed-rate bonds issued by the Bank and hedged by means of an IRS with a nominal value of €60 million;
- 1 mixed-rate bond issued by the Bank and hedged with an IRS and an interest rate option (floor) with a nominal value of €385.1 million;
- 1 mixed-rate bond issued by the Bank and hedged with an IRS with a nominal value of €35 million;
- 1 treasury bond (BTP) linked to European inflation hedged with IRSs and options with a nominal value of €100 million;

[1] *See. ""Interest Rate Risk in the Banking Book Policy (IRRBB Policy)""*;

- 1 treasury bond (BTP) linked to Italian inflation hedged with IRSs and options with a nominal value of €25 million;
- 3 fixed-rate treasury bonds (BTPs) with a value of €242 million;
- 2 Treasury Credit Certificates (CTZs) hedged with an overnight indexed swap (OIS) with a value of €600 million;
- 1 IMI Banca step-up bond hedged with an IRS with a nominal value of €72 million;
- 11 fixed-rate deposits hedged with overnight indexed swaps (OISs) with a nominal value of €824 million.

In addition, during the period the Bank also undertook the following macro-hedging transaction:

- hedging of portfolios (collateralized loans to the mutual banks) with a value of €2,822 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:

- 1 Italian government bond (BTP) linked to European inflation using asset swaps with a nominal value of €28 million;
- 4 dollar-denominated bonds hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €80.7 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.

2.3 EXCHANGE RATE RISK

Qualitative disclosures

A. General aspects, management and measurement of exchange rate risk

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

B. Hedging exchange rate risk

Operations are largely executed in currencies with deep markets. Iccrea has adopted a system of daily operational limits on the overall composition of foreign currency positions and on the net positions in the individual currencies, with partial use of the overall position limit, appropriately graduate by the importance of the currencies.

DISTRIBUTION BY CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES

	CURRENCY					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER
A. Financial assets	**97,540**	**7,342**	**17,355**	**2,141**	**42,319**	**9,478**
A.1 Debt securities	556	40	-	-	-	652
A.2 Equity securities	12,640	1,465	-	-	-	-
A.3 Loans to banks	77,756	5,837	17,355	2,141	42,319	8,826
A.4 Loans to customers	6,588	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**7,513**	**4,116**	**364**	**654**	**3,145**	**1,273**
C. Financial liabilities	**242,682**	**9,914**	**1,901**	**5,978**	**28,317**	**10,817**
C.1 Due to banks	162,242	9,914	1,901	5,978	28,317	10,450
C.2 Due to customers	274	-	-	-	-	367
C.3 Debt securities	80,166	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ Long positions	2,677	-	33	-	-	839
+ Short positions	2,108	-	1,566	-	954	839
- Other derivatives						
+ Long positions	2,435,607	192,442	13,018	7,057	36,138	78,558
+ Short positions	2,285,570	192,414	25,805	3,947	52,882	79,224
Total assets	**2,543,337**	**203,900**	**30,770**	**9,852**	**81,602**	**90,148**
Total liabilities	**2,530,360**	**202,328**	**29,272**	**9,925**	**82,153**	**90,880**
Difference (+/-)	**12,977**	**1,572**	**1,498**	**(73)**	**(551)**	**(732)**

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

	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt securities and interest rates	**13,061,897**	**-**	**14,591,434**	**29,400**
a) Options	2,592,089	-	3,251,265	-
b) Swaps	10,216,439	-	11,322,798	-
c) Forwards	16,170	-	17,371	-
d) Futures	178,800	-	-	29,400
e) Other	58,399	-	-	-
2. Equity securities and equity indices	**13,555**	**-**	**7,680**	**100**
a) Options	12,119	-	7,680	-
b) Swap	-	-	-	-
c) Forwards	-	-	-	100
d) Futures	1,436	-	-	-
e) Other	-	-	-	-
3. Foreign currencies and gold	**4,630,676**	**-**	**926,725**	**-**
a) Options	15,761	-	-	-
b) Swaps	-	-	-	-
c) Forwards	4,614,915	-	926,725	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
TOTAL	**17,706,128**	**-**	**15,525,839**	**29,500**

A.2 BANKING BOOK: END-PERIOD NOTIONAL AMOUNTS

A.2.1 HEDGING

	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt securities and interest rates	**6,149,070**	**-**	**5,736,049**	**-**
a) Options	538,100	-	1,319,420	-
b) Swaps	5,610,970	-	4,416,629	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Foreign currencies and gold	**90,124**	**-**	**50,525**	**-**
a) Options	-	-	-	-
b) Swaps	90,124	-	50,525	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
TOTAL	**6,239,194**	**-**	**5,786,574**	**-**

A.2.2 OTHER DERIVATIVES

	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt securities and interest rates	**-**	**-**	**644,000**	**-**
a) Options	-	-	322,000	-
b) Swaps	-	-	322,000	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**18,475**	**-**	**6,932**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	18,475	-	6,932	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Foreign currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
TOTAL	**18,475**	**-**	**650,932**	**-**

A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT

	POSITIVE FAIR VALUE			
	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Supervisory trading book	**330,461**	**-**	**334,057**	**30**
a) Options	9,259	-	12,404	-
b) Interest rate swaps	294,682	-	316,923	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	26,463	-	4,730	-
f) Futures	56	-	-	30
g) Other	1	-	-	-
B. Banking book – hedging	**15,347**	**-**	**10,181**	**-**
a) Options	-	-	40	-
b) Interest rate swaps	7,918	-	4,875	-
c) Cross currency swaps	7,429	-	5,266	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – Other derivatives	**-**	**-**	**4,736**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	4,736	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
TOTAL	**345,808**	**-**	**348,974**	**30**

A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE– BREAKDOWN BY PRODUCT

	NEGATIVE FAIR VALUE			
	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Supervisory trading book	**326,511**	**-**	**337,772**	**93**
a) Options	10,275	-	13,142	-
b) Interest rate swaps	299,610	-	318,865	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	15,839	-	5,765	1
f) Futures	787	-	-	92
g) Other	-	-	-	-
B. Banking book – hedging	**51,836**	**-**	**88,035**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	51,836	-	88,035	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – Other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
TOTAL	**378,347**	**-**	**425,807**	**93**

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
1) Debt securities and interest rates							
- notional value	-	-	1,366,143	567	-	-	165,333
- positive fair value	-	-	60,564	-	-	-	87
- negative fair value	-	-	6,393	10	-	-	1,159
- future exposure	-	-	6,001	-	-	-	10
2) Equity securities and equity indices							
- notional value	114	-	3,031	-	-	-	848
- positive fair value	8	-	38	-	-	-	
- negative fair value	-	-	87	-	-	-	58
- future exposure	-	-	134	-	-	-	
3) Foreign currencies and gold							
- notional value	-	-	597,750	1,211,529	-	-	-
- positive fair value	-	-	3,857	10,382	-	-	-
- negative fair value	-	-	433	1,103	-	-	-
- future exposure	-	-	1,030	12,115	-	-	-
4) Other assets							
- 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
1) Debt securities and interest rates							
- notional value	-	-	10,763,686	766,167	-	-	-
- positive fair value	-	-	220,576	22,263	-	-	-
- negative fair value	-	-	297,767	5,107	-	-	-
2) Equity securities and equity indices							
- notional value	292	-	9,270	-	-	-	-
- positive fair value	19	-	136	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Foreign currencies and gold							
- notional value	-	-	2,783,951	37,446	-	-	-
- positive fair value	-	-	12,215	316	-	-	-
- negative fair value	-	-	14,395	-	-	-	-
4) Other assets							
- 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
1) Debt securities and interest rates							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity securities and equity indices							
- notional value	-	-	-	18,475	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Foreign currencies and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other assets							
- 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
1) Debt securities and interest rates							
- notional value	-	-	6,119,070	30,000	-	-	-
- positive fair value	-	-	7,918	-	-	-	-
- negative fair value	-	-	51,736	100	-	-	-
2) Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Foreign currencies and gold							
- notional value	-	-	23,717	66,407	-	-	-
- positive fair value	-	-	1,878	5,551	-	-	-
- negative fair value	-	-	-	-	-	-	-
4) Other assets							
- 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
A. Supervisory trading book	**9,101,901**	**4,523,641**	**4,080,586**	**17,706,128**
A.1 Financial derivatives on debt securities and interest rates	4,463,289	4,518,428	4,080,180	13,061,897
A.2 Financial derivatives on equity securities and equity indices	8,031	5,118	406	13,555
A.3 Financial derivatives on exchange rates and gold	4,630,581	95	-	4,630,676
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book	**4,696,580**	**1,394,863**	**166,226**	**6,257,669**
B.1 Financial derivatives on debt securities and interest rates	4,684,049	1,298,795	166,226	6,149,070
B.2 Financial derivatives on equity securities and equity indices	12,531	5,944	-	18,475
B.3 Financial derivatives on exchange rates and gold	-	90,124	-	90,124
B.4 Financial derivatives on other assets	-	-	-	-
TOTAL AT 31/12/2016	**13,798,481**	**5,918,504**	**4,246,812**	**23,963,797**
TOTAL AT 31/12/2015	**9,410,116**	**8,435,096**	**4,118,133**	**21,963,345**

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
1. Purchases of protection				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	-	-
TOTAL AT 31/12/2015	**-**	**-**	**-**	**-**
TOTAL AT 31/12/2014	**-**	**-**	**-**	**-**
2. Sales of protection				
a) Credit default products	-	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swaps	-	-	-	-
d) Other	-	-	15,000	-
TOTAL AT 31/12/2016	**-**	**-**	**15,000**	**-**
TOTAL AT 31/12/2015	**-**	**-**	**15,000**	**-**

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
Supervisory trading book							
1) Purchases of protection							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Sales of protection							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Banking book							
1) Purchases of protection							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Sales of protection							
- 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
A. Supervisory trading book	**-**	**-**	**-**	**-**
A.1 Credit derivatives with qualifying reference obligation	-	-	-	-
A.2 Credit derivatives with non-qualifying reference obligation	-	-	-	-
B. Banking book	**-**	**-**	**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
TOTAL AT 31/12/2016	**-**	**-**	**15,000**	**15,000**
TOTAL AT 31/12/2015	**-**	**-**	**15,000**	**15,000**

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
1) Bilateral agreements – financial derivatives							
- positive fair value	-	-	131,155	23,956	-	-	-
- negative fair value	-	-	257,889	1,903	-	-	-
- future exposure	-	-	72,537	5,827	-	-	-
- net counterparty risk	-	-	42,265	7,376	-	-	-
2) Bilateral agreements – credit derivatives				-			
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross-product agreements							
- 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 principal of proportionality, of the system for the governance and management of liquidity risk with applicable supervisory regulations.

Iccrea Banca is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

More specifically, the liquidity risk management model establishes that:

- operating liquidity is managed on a centralized basis 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. refinanceable 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 sever but plausible events (scenarios) that can be classified into three categories:

- **stress scenarios caused by a systemic event**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy;
- **stress scenarios caused by specific events (idiosyncratic)**, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves highly adverse consequences for the Group. IN defining those events, a specific analysis was conducted, considering the specific

organizational, operational and risk features that distinguish the Group;
- **stress scenarios generated by a combination of specific and systemic events,** i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

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 exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:
- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:
- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

The stress tests are performed using a static or dynamic approach depending on the type of indicator being stressed. On the basis of the approach selected, assumptions that modify the maturity structure of assets and/or liabilities or the composition of funding are introduced (dynamic approach) or are not introduced (static approach) within the time horizon considered.

QUANTITATIVE DISCLOSURES

1. 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
On-balance-sheet assets	**2,907,947**	**2,570,751**	**644,744**	**3,009,396**	**5,746,838**	**5,480,906**	**7,609,790**	**12,059,366**	**2,369,082**	**152,719**
A.1 Government securities	4	-	2,104	4,550	817,426	803,309	1,700,502	2,541,625	1,108,476	-
A.2 Other debt securities	34,946	189,876	53	360	16,387	197,699	1,427,003	1,816,618	1,129,302	-
A.3 Units in collective investment undertakings	443,974	-	-	-	-	-	-	-	-	-
A.4 Loans	2,429,024	2,380,875	642,587	3,004,486	4,913,024	4,479,898	4,482,284	7,701,124	131,304	152,719
- banks	796,066	1,571,950	584,100	2,884,297	4,578,598	4,379,251	4,322,456	6,864,441	813	152,719
- customers	1,632,958	808,925	58,487	120,189	334,426	100,647	159,829	836,683	130,492	-
On-balance-sheet liabilities	**5,674,079**	**9,118,433**	**1,839,105**	**3,394,117**	**4,533,448**	**4,610,539**	**2,102,503**	**10,351,278**	**218,189**	**-**
B.1 Deposits	5,039,993	145,021	2,021	358,395	262,760	154,416	307,568	1,129,100	-	-
- banks	4,763,987	145,021	2,021	356,171	262,753	154,416	307,568	1,129,100	-	-
- customers	276,006	-	-	2,224	7	-	-	-	-	-
B.2 Debt securities	480	1,178	-	1,115	50,163	160,286	188,536	3,601,918	218,189	-
B.3 Other liabilities	633,606	8,972,234	1,837,084	3,034,607	4,220,525	4,295,837	1,606,398	5,620,260	-	-
Off-balance-sheet transactions										**-**
C.1 Financial derivatives with exchange of principal										
- long positions	17	2,043,304	187,685	194,126	421,895	20,706	11,562	38,242	42,327	-
- short positions	17	1,036,277	38,439	192,668	1,236,418	114,659	107,367	123,212	212,321	-
C.2 Financial derivatives without exchange of principal										
- long positions	309,272	-	-	76	1,947	2,248	1,594	-	-	-
- short positions	315,164	-	75	72	2,161	4,595	15,091	-	-	-
C.3 Deposits and loans to receive										
-- long positions	-	7,937,447	389,611	-	354,664	250,976	80,005	-	-	-
- short positions	-	6,441,327	-	21,771	554,239	907,919	802,486	284,962	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	1,176,540	-	-	-	-	182,822	-	-	-
- short positions	-	1,176,540	-	89,643	-	93,179	-	-	-	-
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. 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
On-balance-sheet assets	**30,911**	**35,658**	**13,602**	**37,023**	**28,194**	**12,821**	**1,393**	**2,484**	**364**	**-**
A.1 Government securities	-	-	-	-	-	12	10	148	84	-
A.2 Other debt securities	-	-	-	-	15	211	93	407	281	-
A.3 Units in collective investment undertakings	100	-	-	-	-	-	-	-	-	-
A.4 Loans	30,812	35,658	13,602	37,023	28,179	12,598	1,290	1,929	-	-
- banks	30,812	33,289	12,828	33,574	28,179	12,598	1,290	1,929	-	-
- customers	-	2,369	774	3,450	-	-	-	-	-	-
On-balance-sheet liabilities	**129,698**	**16,630**	**5,914**	**38,051**	**14,644**	**8,304**	**7,082**	**80,686**	**840**	**-**
B.1 Deposits	129,698	16,630	5,914	27,131	13,957	7,701	6,108	-	-	-
- banks	129,686	16,630	5,914	27,131	13,957	7,701	6,108	-	-	-
- customers	12	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	372	603	974	80,340	-	-
B.3 Other liabilities	-	-	-	10,920	315	-	-	347	840	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	973,620	37,987	219,025	1,233,222	117,729	105,781	96,947	1,960	-
- short positions	-	1,969,282	192,265	220,394	241,214	23,114	9,311	6,916	1,620	-
C.2 Financial derivatives without exchange of principal										
- long positions	1,754	-	-	-	-	-	-	-	-	-
- short positions	2,059	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to receive										
-- long positions	-	4,597	-	-	-	-	-	-	-	-
- short positions	-	4,597	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	-	2,595	-	-	-	-	-	-	-	-
- short positions	-	2,595	-	-	-	-	-	-	-	-
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

Within the framework of the initiatives defined at the Group level in the CRO area, the Bank has implemented an integrated system for identifying and analyzing operational risks that enables the evaluation of each business area's exposure to such risks.

The approach adopted also makes it possible to pursue the following additional specific objectives:

- providing risk owners with greater awareness of the risks associated with their operations;
- assessing the Bank's positioning with respect to operational risk factors in corporate processes;
- providing top management with an overall view of the Bank's operational issues by period and area of observation;
- providing information to improve the internal control system;
- optimizing operational risk mitigation actions through a process that identifies risks, assesses them economically and identifies the internal problems underlying those risks, thereby enabling cost/benefit analysis of the initiatives to be taken in response.

The operational risk analysis system created through these initiatives is composed of:

- an overall framework for managing operational risks, composed of classification models, analytical methods, management processes and support tools;
- a prospective self-assessment process of the exposure to operational risks. The results of the assessments are processed with a statistical model that translates the estimates of exposure to operational risks into economic capital values;
- a Loss Data Collection process;
- an quantitative actuarial model for analyzing the time series of operating losses, which now covers six years.

Consistent with the "Risk Management Process", the framework is structured into the following phases:

1. **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).

2. **Evaluation/measurement of identified risks (awareness)**: processes, methods and tools for assessing/measuring Group operational risks.

3. **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.

4. **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".

5. **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.

For the purpose of the internal operational risk management process, in November 2016 the Board of Directors of Iccrea Banca approved an evolutionary revision of the operational risk management framework in order to transition from an "event driven" approach to a "risk factor driven" framework. This approach seeks to direct risk analysis primarily towards the identification of vulnerabilities that can be used more immediately in the management of risks and the identification of mitigation interventions. The project was launched in December 2016 and will also take account of the new Standardized Measurement Approach for determining capital requirements published in the paper of the Basel Committee on Banking Supervision, the consultation for which ended on June 3, 2016.

The operational risk assessment framework outlined above also includes legal risk and specifically provides for IT risk, in line with the relevant regulations.

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. 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 Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the year, amounted to €36,177 thousand.

Information on capital

PART F – INFORMATION ON CAPITAL

SECTION 1 - COMPANY CAPITAL

A. Qualitative disclosures

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business.

Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. Quantitative disclosures

B.1 COMPANY CAPITAL: COMPOSITION

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
1. Share capital	**1,151,045**	**216,913**
2. Share premium reserve	**4,747**	**-**
3. Reserves	**391,786**	**194,425**
- earnings	389,784	112,423
a) legal	48,201	48,201
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	341,378	64,017
- other	2,002	82,002
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**(30,068)**	**-**
6. Valuation reserves:	**67,249**	**89,088**
- Financial assets available for sale	19,562	43,531
- Property and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(2,405)	(831)
- Foreign exchange differences		-
- Non-current assets held for sale		-
- Actuarial gains (losses) on defined benefit plans	(1,970)	(1,478)
- Share of valuation reserves of equity investments accounted for using equity method		-
- Special revaluation laws	52,062	47,866
7. Net profit (loss) for the period	**21,084**	**9,245**
TOTAL	**1,605,843**	**509,671**

The change reflects the merger of Iccrea Holding into Iccrea Banca.

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

	TOTAL AT 31/12/2016		TOTAL AT 31/12/2015	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	8,040	(3,720)	40,262	(3,609)
2. Equity securities	14,627	-	6,916	-
3. Units in collective investment undertakings	667	(51)	-	(38)
4. Loans	-	-	-	-
TOTAL	**23,334**	**(3,771)**	**47,178**	**(3,647)**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS AVAILABLE FOR SALE: CHANGE FOR THE PERIOD

	DEBT SECURITIES	EQUITY SECURITIES	UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	LOANS
1. Opening balance	**36,653**	**6,916**	**(38)**	**-**
2. Increases	**9,366**	**7,866**	**667**	**-**
2.1 Fair value gains	5,934	902	-	-
2.2. Reversal to income statement of negative reserves	3,432	184	-	-
- from impairment	-	184	-	-
- from realization	3,432	-	-	-
2.3 Other changes	-	6,780	667	-
3. Decreases	**41,699**	**155**	**13**	**-**
3.1 Fair value losses	10,603	155	13	-
3.2 Impairment adjustments	-	-	-	-
3.3 Reversal to income statement of positive reserves	31,096	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**4,320**	**14,627**	**616**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

	TOTAL AT 31/12/2016	
	POSITIVE RESERVE	NEGATIVE RESERVE
1. Gain (loss) from changes in financial assumptions	-	-
2. Gain (loss) from passage of time	-	(450)
TOTAL	**-**	**(450)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

Own funds, risk-weighted assets and solvency ratios at December 31, 2016 have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision ("Basel 3") within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.
The provisions concerning own funds call for the new regulatory framework to be introduced gradually, over a transitional period that will generally end in 2017, during which certain components that, once completely implemented will be fully calculated in or deductible from common equity, at present only partially impact Common Equity Tier 1 capital. The remaining percentage is normally calculated in/deducted from Additional Tier 1 (AT1) capital and Tier 2 (T2) capital or is included among risk-weighted assets. There are also transitional provisions regarding subordinated instruments that do not meet the requirements of the new regulations that aim to gradually remove instruments that are no longer eligible from own funds (over 8 years). The prudential ratios therefore take account of the adjustments required by the transitional provisions for 2014.
At December 31, 2016 own funds amounted to €1,689 million, as against a total capital requirement of €305.182 million, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

2.1 OWN FUNDS

A. Qualitative disclosures

1. COMMON EQUITY TIER 1 (CET1) CAPITAL

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,584,857 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 €2,774 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,582,083 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 €30,963 thousand, while the positive impact of the transitional system on CET 1 comes to €3,470 thousand and is represented by the negative actuarial reserves (IAS 19) and the exclusion of unrealized profits on AFS securities. Therefore, CET1 amounts to €1,554 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 €3,045 thousand, bringing the total Tier 2 capital to €133,607 thousand.

The following are the characteristics of the subordinated lower Tier II bonds:

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €106,600 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11,737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption;
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest

rate 6M Euribor + 350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption.

B. Quantitative disclosures

	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. Common Equity Tier 1 (CET1) capital before the application of the prudential filters	**1,584,857**	**500,426**
of which CET1 instruments subject to the transitional provisions	-	-
B. CET1 prudential filters (+/-)	**(2,774)**	**(1,149)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**1,582,083**	**499,277**
D. Elements to be deducted from CET1	**(30,963)**	**(10,809)**
E. Transitional system - Impact on CET1 (+/-)	**3,470**	**(39,502)**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,554,590**	**448,966**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system	-	-
of which AT1 instruments subject to the transitional provisions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional system - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	-	-
M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system	**130,562**	**131,042**
of which Tier 2 instruments subject to the transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional system - Impact on T2 (+/-)	**3,045**	**2136**
P. Total Tier 2 (T2) capital (M - N +/- O)	**133,607**	**133,178**
Q. Total own funds (F + L + P)	**1,688,197**	**582,144**

2.2 CAPITAL ADEQUACY

A. Qualitative disclosures

The capital ratios at December 31, 2016, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

B. Quantitative disclosures

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/REQUIREMENTS	
	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015	TOTAL AT 31/12/2016	TOTAL AT 31/12/2015
A. EXPOSURES				
A.1 CREDIT AND COUNTERPARTY RISK	**77,280,843**	**78,929,207**	**3,025,413**	**1,983,083**
1. Standardized approach	77,274,351	78,729,207	3,018,921	1,862,603
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	6,492	200,000	6,492	120,480
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**242,033**	**158,647**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING			**6,608**	**4,673**
B.3 REGULATORY RISK				
B.4 MARKET RISKS			**20,364**	**13,593**
1. Standardized method			20,364	13,593
2. Internal models				
3. Concentration risk				
B.5 OPERATIONAL RISK			**36,177**	**33,288**
1. Basic indicator approach			36,177	33,288
2. Standardized approach				
3. Advanced measurement approach				
B.6 OTHER COMPONENTS				
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**305,182**	**210,201**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 RISK-WEIGHTED ASSETS			**3,814,776**	**2,627,509**
C.2 CET1 CAPITAL RATIO			**40.75%**	**17.08%**
C.3 TIER1 CAPITAL RATIO			**40.75%**	**17.08%**
C.4 TOTAL CAPITAL RATIO			**44.25%**	**22.14%**

Part G

Business combinations

PART G – BUSINESS COMBINATIONS

SECTION 1 – TRANSACTIONS CARRIED OUT DURING THE PERIOD

In February 2016 the project for the reverse merger of Iccrea Holding into Iccrea Banca got under way. The project was drafted pursuant to and for the purposes of Article 2501-*ter* of the Civil Code, indicating the following reasons for the operation.

The then structure of the Group envisaged a non-banking Parent Company, Iccrea Holding, with Iccrea Banca as the lead bank for all of the banking and financial activities of the Group and, naturally, the other subsidiaries.

In September 2014, the European Central Bank (the ECB), following the designation of the Iccrea Banking Group as a significant group pursuant to Article 6, paragraph 4, of the Council Regulation concerning the single supervisory mechanism (Reg. (EU) 1024/2013), subjected Iccrea Holding S.p.A. and the banks under its control to the direct supervision of the ECB.

SECTION 2 – TRANSACTIONS CARRIED OUT FOLLOWING THE CLOSE OF THE PERIOD

Being subject to the prudential supervision of the ECB and the Supervisory Review and Evaluation Process (SREP) made it necessary to address new strategic horizons that called for a revision of the structure of the Iccrea Banking Group so as to facilitate the process of remedying a number of issues.

Accordingly, the implementation of the 2015-2017 Industrial Plan would be even more effective if supported by measures to revise the corporate structure of the Group, such as the merger of Iccrea Banca and Iccrea Holding, which would lead to the creation of a Parent Company authorized to engage in banking.

AT the same time, this operation would become part of the broader reorganization of the entire mutual banking system, in implementation of the provisions of Decree Law 18 of February 14, 2016, published in *Gazzetta Ufficiale – serie generale* no. 37 – of February 15, 2016, and ratified with Law 49 of April 8, 2016.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

The decision to use a reverse merger structure for the transaction was prompted by the need to:

- maintain the stability and continuity of the relationships and of the image and reliability that Iccrea Banca (*Istituto di Credito delle Casse rurali e artigiane*, now *Banche di Credito Cooperativo*) has developed and consolidated over time;
- continue operating on domestic and international markets based on Iccrea Banca's existing banking license.

The reverse merger of the parent company Iccrea Holding into the subsidiary Iccrea Banca was carried out using the "simplified procedure" envisaged under Article 2505 of the Civil Code, as the operation involved a merger between companies in which one held the entire share capital of the other, subject to the requirement to determine the exchange ratio and the procedures for assigning the shares of the surviving company, given the fact that the operation was a reverse merger, with the sole purpose of underscoring the perfect proportionality of the ownership structure of the acquiring company with that of the merged company, with no substantive economy impact whatsoever, all in accordance with the procedures described in section 3 below. The administrative bodies were exempted from the requirement to draft the report referred to in Article 2501-quinquies of the Civil Code and the obligation to arrange for the report of the experts referred to in Article 2501-sexies of the Civil Code.

In view of the fact that the merged company held all of the share capital of the acquiring company at the time of the merger, the merger was carried out through the assignment to the shareholders of Iccrea Holding, on the basis of their respective interests in the latter, of the ordinary shares of Iccrea Banca held by Iccrea Holding as of the merger date, without those shares ever being held by Iccrea Banca as treasury shares.

The share capital of the new Parent Company, Iccrea Banca, is equal to the value of the capital of the merged company (Iccrea Holding), or 1,151,045,403.55. This result was achieved by way of the following stages:

- a capital increase by the acquiring company (Iccrea Banca) with the allocation of the merger surplus and the concomitant change in the par value of the shares of the acquiring company (Iccrea Banca) to be equal to the par value of the shares of the merged company (Iccrea Holding);

- cancellation of the shares in circulation of Iccrea Banca and Iccrea Holding;
- issue and assignment of new shares of the acquiring company (Iccrea Banca) to the shareholders of the merged company (Iccrea Holding) in proportion to the number of shares held at the effective date of the merger.

In view of the fact that the share capital, par value and number of shares of the merged company (Iccrea Holding) are equal to those of the new post-merger Parent Company (Iccrea Banca), 1 (one) ordinary share of the new Parent Company (Iccrea Banca) has been assigned for each share of Iccrea Holding held.

Having obtained the required authorizations from the European Central Bank, the Bank of Italy and IVASS, on July 12, 2016 the Extraordinary Shareholders' Meetings of the companies involved authorized the merger of Iccrea Holding SpA into Iccrea Banca on the basis of the merger project outlined above.

As the implementation of the merger involved changes to the articles of association, the shareholders of Iccrea Holding that did not approve the resolution authorizing the merger are entitled to withdraw from the company of which they were shareholders pursuant to and for the purposes of Article 2437, paragraph 1, of the Civil Code. The resolution approving the merger established that the time limits and procedures for exercising the right of withdrawal, and the procedure for settling payment of the shares, would be governed by Articles 2437 bis, ter and quater of the Civil Code.

For the purposes of withdrawal, the Board of Directors determined the settlement value of the shares of the merged entity, pursuant to Articles 2437 et seqq. of the Civil Code, and filed that valuation at the registered office.

The right of withdrawal was exercised within the time limits by 12 shareholders of the merged company holding a total of 818,553 ordinary shares with a par value of €42,278,262.45. The right of pre-emption could be exercised for those shares by all other shareholders.

On September 15, 2016 the instrument for the merger of Iccrea Holding Spa into Iccrea Banca Spa was notarized by the notary Studio Notarile Associato Sbardella – De Angelis, no. 38907 file no. 17933, taking effect as from the first day of the month following that of registration of the merger instrument in the Company Register pursuant to Article 2504-bis of the Civil Code. Following registration, the merger instrument took effect as from October 1, 2016.

The transactions of the merged company were incorporated in the financial statements of the acquiring company as from the first day of the financial year under way at the time the merger took effect pursuant to Article 2504-bis of the Civil Code. With regard to tax effects, such a merger is a fiscally neutral transaction pursuant to Article 172, paragraphs 1 and 2, of the Uniform Income Tax Code.

In December, payment was made for the 818,553 shares held by the withdrawing shareholders at the settlement price of €52.80 per share, for a total of €43,219,598.40. This was the definitive value as the withdrawing shareholders did not contest the appraisal. As part of this operation, 249,089 shares (with a total value of €13,151,899.20) were assigned to shareholders who exercised the right of pre-emption at the settlement price.

At December 31, 2016, Iccrea Banca held a residual total of 569,464 shares with a par value of €51.65 each and repurchased at €52.80 for a total of €30,067,699.20. A specific reserve (purchase of treasury shares) will have to be established, drawn from the existing available reserves, which currently amount to €343,584,496.10.

In order to enable a uniform comparison of the values reported in the financial statements at December 31, 2016 and those for the previous year, the following balance sheet and income statement excluding intercompany items have been published to permit a comparison of the information for the two years.

PRO FORMA BALANCE SHEET AT 31/12/2015

	ASSETS	31/12/2016	31/12/2015 IB	31/12/2015 IH	31/12/2015 IB+IH
10.	Cash and cash equivalents	98,423,950	91,044,385	1,746	91,046,131
20.	Financial assets held for trading	420,177,927	402,779,515		402,779,515
30.	Financial assets at fair value through profit or loss	14,558,805	337,911,423		337,911,423
40.	Financial assets available for sale	5,650,669,289	6,720,077,506	42,723,900	6,762,801,406
50.	Financial assets held to maturity	1,600,389,734	1,779,509,026		1,779,509,026
60.	Due from banks	30,999,441,676	31,939,294,138	264,276,609	31,942,309,971
70.	Loans to customers	4,181,848,448	4,077,714,650	2,890	4,077,717,540
80.	Hedging derivatives	15,325,730	10,181,179		10,181,179
90.	Value adjustments of financial assets hedged generically (+/-)	(348,377)	931,764		931,764
100.	Equity investments	1,139,962,602	263,610,066	1,150,453,735	1,115,125,914
110.	Property and equipment	12,567,457	7,794,323	272,151	8,066,474
120.	Intangible assets	5,681,878	8,731,680	266,515	8,998,195
130.	Tax assets	69,899,091	6,272,896	39,393,190	45,666,086
	a) current	39,468,187	3,132,565	32,799,463	35,932,028
	b) deferred	30,430,904	3,140,331	6,593,727	9,734,058
	of which Law 214/2011	*2,968,715*	*3,124,963*		*3,124,963*
150.	Other assets	186,967,310	143,488,731	47,909,351	161,286,226
	TOTAL ASSETS	**44,395,565,520**	**45,789,341,282**	**1,545,300,087**	**46,744,330,850**

	LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016	31/12/2015 IB	31/12/2015 IH	31/12/2015 IB+IH
10.	Due to banks	13,265,098,886	13,670,456,675		13.670.456.674
20.	Due to customers	24,444,622,415	26,029,647,965		25.768.387.189
30.	Securities issued	4,207,516,587	4,368,997,749		4.368.997.749
40.	Financial liabilities held for trading	422,615,890	475,615,372		475.615.372
50.	Financial liabilities at fair value through profit or loss	0	437,636,496		437.636.496
60.	Hedging derivatives	51,814,840	88,034,704		88.034.704
80.	Tax liabilities	1,966,154	17,988,432	6,607,086	24.595.518
	a) current	0	0		5,576,701
	b) deferred	1,966,154	17,988,432		19,018,817
100.	Other liabilities	371,378,874	172,170,921	72,441,300	213.900.594
110.	Employee termination benefits	12,262,953	12,768,900	450,434	13.219.334
120.	Provisions for risks and charges::	12,445,798	6,352,336	14,293,362	20.645.698
	a) pensions and similar obligations				
	b) other provisions	12,445,798	6,352,336	14,293,362	20,645,698
130.	Valuation reserves	67,248,992	89,087,911	11,600,617	100.688.528
160.	Reserves	391,785,505	194,425,293	149,261,537	301.667.143
170.	Share premium account	4,746,737	0	4,746,737	4.746.737
180.	Share capital	1,151,045,404	216,913,200	1,151,045,404	1.151.045.404
190.	Treasury shares (-)	(30,067,699)	0	(442,898)	(442.898)
200.	Net profit (loss) for the period (+/-)	21,084,184	9,245,328	135,296,508	105.136.609
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**44,395,565,520**	**45,789,341,282**	**1,545,300,087**	**46,744,330,850**

PRO FORMA INCOME STATEMENT AT 31/12/2015

		31/12/2016	31/12/2015 IB	31/12/2015 IH	31/12/2015 IB+IH
10.	Interest and similar income	232,349,684	275,542,766	383,981	275,610,133
20.	Interest and similar expense	(182,127,452)	(192,855,218)		(192,538,604)
30.	**Net interest income**	**50,222,232**	**82,687,548**	**383,981**	**83,071,529**
40.	Fee and commission income	364,277,625	383,698,599	18,444	383,716,849
50.	Fee and commission expense	(236,805,464)	(256,331,772)		(256,331,772)
60.	**Net fee and commission income (expense)**	**127,472,161**	**127,366,827**	**18,444**	**127,385,077**
70.	Dividends and similar income	22,777,687	230,821	49,619,591	9,845,412
80.	Net gain (loss) on trading activities	15,983,680	22,351,184		22,351,184
90.	Net gain (loss) on hedging activities	1,572,880	65,096		65,096
100.	Net gain (loss) on the disposal or repurchase of:	78,139,983	22,962,398	114,017,282	136,979,680
	a) loans	60,520	3,692,881		3,692,881
	b) financial assets available for sale	81,750,457	27,670,760		141,688,042
	d) financial liabilities	(3,670,994)	(8,401,243)		(8,401,243)
110.	Net gain (loss) on financial assets and liabilities designated as at fair value	1,099,167	1,994,915		1,994,915
120.	**Gross income**	**297,267,790**	**257,658,789**	**164,039,298**	**381,692,893**
130.	Net losses/recoveries on impairment:	(17,104,713)	(3,440,772)		(3,440,772)
	a) loans	4,650,547	748,267		748,267
	b) financial assets available for sale	(19,133,210)			
	d) other financial transactions	(2,622,050)	(4,189,039)		(4,189,039)
140.	**Net income (loss) from financial operations**	**280,163,077**	**254,218,017**	**164,039,298**	**378,252,121**
150.	Administrative expenses:	(303,881,672)	(247,443,998)	(35,252,821)	(279,479,690)
	a) personnel expenses	(92,586,543)	(62,329,862)	(22,713,371)	(85,027,476)
	b) other administrative expenses	(211,295,129)	(185,114,136)	(12,539,450)	(194,452,213)
160.	Net provisions for risks and charges	7,146,629	(231,928)	19,468	(212,460)
170.	Net adjustments of property and equipment	(2,992,466)	(3,002,768)	(70,709)	(3,073,477)
180.	Net adjustments of intangible assets	(5,658,354)	(6,726,538)	(175,748)	(6,902,286)
190.	Other operating expenses/income	29,393,452	20,012,758	6,345,624	23,741,220
200.	**Operating expenses**	**(275,992,411)**	**(237,392,474)**	**(29,134,186)**	**(265,926,693)**
210.	Profit (loss) from equity investments	(1,959,674)	0	0	0
250.	**Profit (loss) before tax on continuing operations**	**2,210,992**	**16,825,543**	**134,905,112**	**112,325,428**
260.	Income tax expense from continuing operations	18,873,192	(7,580,215)	391,396	(7,188,819)
270.	**Profit (loss) after tax on continuing operations**	**21,084,184**	**9,245,328**	**135,296,508**	**105,136,609**
280.	Profit (loss) after tax on non-current assets held for sale	-			
290.	**Net profit (loss) for the period**	**21,084,184**	**9,245,328**	**135,296,508**	**105,136,609**

Part H

Transactions with related parties

PART H – TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following tables report the information required under IAS 24 concerning the remuneration of directors and 2 top managers, as well as the members of the Board of Auditors.

	TOTAL AT 31/12/2016
Compensation and other remuneration	1,682
Post-employment benefits	7

	TOTAL AT 31/12/2016
Compensation of members of Board of Auditors	476

LOANS AND GUARANTEES GRANTED:

	TOTAL AT 31/12/2016
- Members of Board of Directors	457
- Members of Board of Auditors	0

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

FEES OF THE AUDIT FIRM

Pursuant to Article 149 – *duodecies* of the Consob Issuers Regulation no. 11971,
the following table reports information on the fees for the year paid to the audit firm, E&Y S.p.A., and entities in its network.

SERVICE PROVIDER	TYPE OF SERVICE	FEES(€/000)*
E&Y S.p.A.	Audit services	144
E&Y S.p.A.	Audit-related services	34
E&Y S.p.A.	Certification services (EMTN programs)	77
Ernst & Young - Studio Legale e Tributario	Tax advisory services	4
Ernst & Young Financial Business Advisor S.p.A.	Other advisory	340
TOTAL		**599**

* net of VAT and expenses

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	(73)		(854,078)		(957)
BCC CREDITOCONSUMO				(671,644)	(3,204)
BCC FACTORING				(486,783)	(422)
BCC GESTIONE CREDITI				(830)	(939)
BCC LEASE				(287,957)	(512)
BCC RETAIL				(581)	(111)
BCC RISPARMIO E PREVIDENZA					(4,060)
BCC SERVIZI INFORMATICI					(3,382)
BCC SOLUTIONS				(20,350)	(2,790)
ICCREA BANCAIMPRESA	(62,948)		(9,070,961)		(25,186)
IMMICRA				(8,662)	(180)
VENTIS				(2,006)	
TOTAL	**(63,021)**	**-**	**(9,925,039)**	**(1,478,813)**	**(41,743)**

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	520,168		450,329	1,475		351
BCC CREDITOCONSUMO						2,221
BCC FACTORING		125				1,906
BCC GESTIONE CREDITI		2,345				276
BCC LEASE						948
BCC RETAIL		13				
BCC RISPARMIO E PREVIDENZA		16,156				2,691
BCC SERVIZI INFORMATICI		144				6,967
BCC SOLUTIONS		2,405				1,787
ICCREA BANCAIMPRESA	121,935			3,251		30,096
IMMICRA						34
VENTIS						
TOTAL	**642,103**	**21,188**	**450,329**	**4,726**	**-**	**47,277**

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	1,363	(8,630)	2,328	(2,757)	58	447	905
BCC CREDITOCONSUMO	14,965		123			186	477
BCC FACTORING	729		18			48	208
BCC GESTIONE CREDITI	33		4			(47)	307
BCC LEASE	3,851		133			28	187
BCC RETAIL	1						90
BCC RISPARMIO E PREVIDENZA		(4)	6			730	1,032
BCC SERVIZI INFORMATICI			286			(10,460)	1,437
BCC SOLUTIONS	966		1			(19,066)	796
ICCREA BANCAIMPRESA	68,326	(2,708)	984	(1)	13,408	(3,149)	6,821
IMMICRA	126						41
VENTIS	6						
TOTAL	**90,366**	**(11,342)**	**3,883**	**(2,758)**	**13,466**	**(31,283)**	**12,301**

The following table reports the additional information required under IAS 24.

TRANSACTIONS WITH RELATED PARTIES: BALANCE SHEET

	GROUP COMPANIES	ASSOCIATES AND OTHER RELATED PARTIES	TOP MANAGEMENT	EMPLOYEE POST-EMPLOYMENT BENEFITS
Financial assets held for trading	63,021	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets available for sale	-	-	-	-
Due from banks	9,925,039	-	-	-
Loans to customers	1,478,813	2	457	-
Equity investments	995,543	144,420	-	-
Other assets	41,743	-	-	-
TOTAL ASSETS	**12,504,159**	**144,422**	**457**	**-**
Due to banks	642,103	-	-	-
Due to customers	21,188	12,907		
Financial liabilities held for trading	4,726	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-
Securities issued	450,329	-	-	-
Other liabilities	47,277	-	-	-
TOTAL LIABILITIES	**1,165,623**	**12,907**	**-**	**-**
GUARANTEES ISSUED AND COMMITMENTS		**5,900**	**-**	**-**

TRANSACTIONS WITH RELATED PARTIES: INCOME STATEMENT

	GROUP COMPANIES	ASSOCIATES AND OTHER RELATED PARTIES	TOP MANAGEMENT	EMPLOYEE POST-EMPLOYMENT BENEFITS
Interest and similar income	8	4	1	-
Interest and similar expense	-	(27)	-	-
Fee and commission income	295	110	-	-
Fee and commission expense	-	(437)	(2,788)	-
Net gain (loss) on trading activities	-	-	-	-
Administrative expenses:	-	-	-	-
Other operating expenses/income	-	-	-	-

Part I

Share-based payments

PART I – SHARE-BASED PAYMENTS

As at the reporting date, the Bank had no payment agreements based on its own equity instruments in place.

PART L

Operating segments

PART L – OPERATING SEGMENTS

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions. The Bank's main income statement and balance sheet aggregates are reported below.

Primary reporting basis

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured.

These segments are:

- finance and lending;
- payment systems

in addition to central governance and support functions, as well as the institutional services functions grouped under the "Corporate Center".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Proprietary Finance and Trading, Treasury and Foreign Exchange, Institutional Sales, Securitizations and Institutional and Retail Lending, while the payment systems segment comprises Collections and Payments, E-Bank and 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.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(thousands of euros)	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15
Net interest income	52,134	83,292	(517)	437	(1,394)	(1,041)	50,222	82,688
Net service income	57,705	56,472	120,085	115,205	98,649	23,307	276,439	194,984
Total revenues	**109,839**	**139,764**	**119,568**	**115,6422**	**97,255**	**22,266**	**326,661**	**277,672**
Administrative expenses	43,557	39,486	113,370	104,321	146,955	103,637	303,882	247,444
Net adjustments of property and equipment and intangible assets	2,687	1,667	3,562	3,546	2,402	4,762	8,651	9,975
Total operating expenses	**46,243**	**41,153**	**116,932**	**107,867**	**149,357**	**108,399**	**312,532**	**257,419**
Gross operating income	**63,595**	**98,611**	**2,636**	**7,774**	**(52,103)**	**(86,133)**	**14,129**	**20,252**

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.

The decrease of €32.8 million in net interest income compared with December 2015 is attributable to a number of factors: a reduction in the volume of assets in the tactical portfolio (-€0.85 billion) and the associated yields (the expected decline in the budget was about €13.2 million); and a contraction in the government securities portfolio of Proprietary Finance and Trading (AFS, -€12.7 million) as a result of the decline compared with the previous year in interest rates from 0.83% to 0.58%. Another factor in the decrease was the non-application of negative interest rates on deposit accounts supporting the daily settlement agreement. That effect can be estimated at about €15 million (assuming remuneration at the Eonia rate).

Net service income, which came to about €277 million in 2016 includes €157 million from net fees and commissions and other income and €120 million from trading operations and dividends.

The increase in net fees and commissions and other income from €147 million in 2015 to €157 million in 2016 reflects an increase in income from the re-billing of IT services and centralized services provided to other companies in the banking group.

The decrease is attributable to a reduction of about €6.4 million in gains on trading and of about 0.9 million in the result on assets measured at fair value.

Administrative expenses, which totaled 303.9 million in 2016, included personnel expenses of €92.6 million, compared with €62 million in 2015, and other administrative expenses of €211.3 million, as against €185 million in 2015. Personnel expenses in 2016 include HR measures of €14.2 million, while other administrative expenses in 2016 include the contribution of €55 million to the National Resolution Fund.

Total net adjustments of property and equipment and intangible assets amounted to about €8.7 million in 2016, of which €3 million in depreciation and €5.7 million in amortization.

As a result of these developments, gross operating income in 2016 amounted to about €2.2 million, a decrease of about €14.6 million on the previous year.

Balance sheet

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. The amounts are end-period figures. Liabilities include share capital, reserves and net profit for the period.

The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(MILLIONS OF EUROS)	DEC-16	DEC-15	DEC-16	DEC-15	DEC-16	DEC-15	DEC-16	DEC-15
Cash and loans to customers	4,182	4,047	-	-	98	91	4,280	4,138
Due from banks	30,999	31,970	-	-	-	-	30,999	31,970
Other assets	7,221	9,258	26	28	1,870	395	9,117	9,681
TOTAL LENDING	**42,402**	**45,275**	**26**	**28**	**1,968**	**487**	**44,396**	**45,789**
Due to customers	23,798	25,545	630	465	16	19	24,444	26,030
Due to banks	13,265	13,670	-	-	-	-	13,265	13,670
Other liabilities	4,787	5,396	-	9	1,900	684	6,687	6,089
TOTAL FUNDING	**41,850**	**44,611**	**630**	**474**	**1,916**	**703**	**44,396**	**45,789**

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 Informatici	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
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 BANCA IMPRESA - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS		31/12/2016		31/12/2015	
10.	Cash and cash equivalents		32,622		32,332
20.	Financial assets held for trading		35,223,436		36,320,270
40.	Financial assets available for sale		28,011,190		417,407,816
50.	Financial assets held to maturity		2,338,958,896		3,893,188,074
60.	Due from banks		209,069,549		98,513,456
70.	Loans to customers		7,938,130,997		8,037,732,878
80.	Hedging derivatives		2,447,493		4,625,891
100.	Equity investments		46,342,498		49,250,000
110.	Property and equipment		1,715,890		1,881,236
120.	Intangible assets		308,814		903,949
130.	Tax assets		183,675,376		192,484,382
	a) current	16,161,690		7,995,485	
	b) deferred	167,513,686		184,488,897	
	b1) of which L. 214/2011	149,806,381		167,034,597	
150.	Other assets		78,513,572		155,785,365
	Total assets		**10,862,430,333**		**12,888,125,648**

LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/2016		31/12/2015	
10.	Due to banks		4,721,067,481		7,378,898,957
20.	Due to customers		695,272,387		437,760,747
30.	Securities issued		4,560,235,407		4,110,384,332
40.	Financial liabilities held for trading		39,793,278		39,057,789
50.	Financial liabilities at fair value		-		-
60.	Hedging derivatives		22,285,716		24,561,108
80.	Tax liabilities		-		-
	a) current	-		-	
	b) deferred	-		-	
100.	Other liabilities		121,547,603		168,080,535
110.	Employee termination benefits		5,149,618		5,446,060
120.	Provisions for risks and charges:		26,537,340		25,854,320
	a) post-employment benefits	228,974		222,024	
	b) other provisions	26,308,366		25,632,296	
130.	Valuation reserves		(1,074,217)		(2,123,619)
160.	Reserves		14,537,661		94,818,258
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		(28,589,700)		(80,280,597)
	Total shareholders' equity and liabilities		**10,862,430,333**		**12,888,125,648**

INCOME STATEMENT

		31/12/2016		31/12/2015	
10.	Interest and similar income		271,414,686		330,437,910
20.	Interest and similar expense		(75,202,162)		(114,200,347)
30.	**Net interest income**		**196,212,524**		**216,237,563**
40.	Fee and commission income		11,908,022		8,744,513
50.	Fee and commission expense		(3,884,742)		(3,869,710)
60.	**Net fee and commission income (expense)**		**8,023,280**		**4,874,803**
70.	Dividends and similar income		2,257,986		2,111,473
80.	Net gain (loss) on trading activities		(4,198,781)		(44,753)
90.	Net gain (loss) on hedging activities		234,342		327,555
100.	Net gain (loss) on the disposal or repurchase of:		(24,644,945)		(22,335,330)
	a) loans	(7,415,945)		(22,335,330)	
	b) financial assets available for sale	(17,229,000)		-	
120.	**Gross income**		**177,884,406**		**201,171,310**
130.	Net losses/recoveries on impairment:		(123,258,827)		(231,113,718)
	a) loans	(122,221,237)		(220,148,307)	
	b) financial assets available for sale	-		(10,965,411)	
	d) other financial transactions	(1,037,590)		-	
140.	**Net income (loss) from financial operations**		**54,625,579**		**(29,942,408)**
150.	Administrative expenses:		(81,509,462)		(77,660,288)
	a) personnel expenses	(36,183,832)		(37,849,538)	
	b) other administrative expenses	(45,325,629)		(39,810,750)	
160.	Net provisions for risks and charges		(679,266)		(5,243,192)
170.	Net adjustments of property and equipment		(269,644)		(167,330)
180.	Net adjustments of intangible assets		(595,135)		(798,602)
190.	Other operating expenses/income		(6,137,878)		(6,855,810)
200.	**Operating expenses**		**(89,191,386)**		**(90,725,222)**
210.	Profit (loss) from equity investments		(2,907,502)		0
250.	**Profit (loss) before tax on continuing operations**		**(37,473,308)**		**(120,667,630)**
260.	Income tax expense from continuing operations		8,883,608		40,387,033
270.	**Profit (loss) after tax on continuing operations**		**(28,589,700)**		**(80,280,597)**
290.	**Net profit (loss) for the period**		**(28,589,700)**		**(80,280,597)**

BCC GESTIONE CREDITI - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS	31/12/2016	31/12/2015
B) NON-CURRENT ASSETS		
I **Intangibles**	99,891	124,997
4) concession, licenses, trademarks and similar rights	99,891	124,997
7) other	-	-
II **Property and equipment**	39,532	53,038
4) other assets	39,532	53,038
III **Financial**	690,320	1,090,320
1) equity investments in		
a) subsidiaries	690,320	1,090,320
Total non-current assets (B)	829,743	1,268,355
C) CURRENT ASSETS		
II Receivables	7,149,298	5,930,541
1) due from customers	3,634,330	2,457,768
- within one year	3,330,118	2,287,131
- more than one year	304,212	170,636
2) due from subsidiaries	1,876	132,716
4) due from parent companies	274,427	115,114
5) due from companies under control of parent companies	1,831,529	872,159
5 bis) tax receivables	104,012	261,277
5 ter) deferred tax assets	446,405	383,130
5 quater) due from others	856,718	1,563,775
- within one year	241,626	1,149,874
- more than one year	615,092	413,901
IV Cash and cash equivalents	2,357,898	2,075,332
1) bank and postal deposits	2,356,343	2,075,136
3) cash and valuables on hand	1,555	196
Total current assets (C)	9,507,196	8,005,873
D) ACCRUED INCOME AND PREPAID EXPENSES	127,635	75,434
TOTAL ASSETS	**10,464,575**	**9,349,662**

SHAREHOLDERS' EQUITY AND LIABILITIES	31/12/2016	31/12/2015
A) SHAREHOLDERS' EQUITY		
I - Share capital	2,000,000	2,000,000
IV - Legal reserve	67,227	60,137
- Payment on capital account	564,750	564,750
- Reserve from acquisition of business unit	(413,752)	(395,687)
- Reserve from valuation of employee termination benefits	5,801	(41,364)
VIII - Retained earnings (loss carried forward)	982,158	847,462
IX - Net profit (loss) for the period	398,857	141,786
Total (A)	3,605,041	3,177,084
B) PROVISIONS FOR RISKS AND CHARGES		
2) for taxes, including deferred taxation	8,506	12,112
4) other	25,000	-
Total (B)	33,506	12,112
C) EMPLOYEE TERMINATION BENEFITS	264,004	368,053
D) PAYABLES		
4) Due to banks	828,786	1,348,371
- within one year	380,446	267,389
- more than one year	448,340	1,080,983
7) Due to suppliers	1,767,968	1,197,107
11) Due to parent companies	1,803,903	950,248
11 bis) Due to companies under control of parent companies	748,271	602,945
12) Due to tax authorities	151,220	199,454
13) Due to social security institutions	217,668	197,426
14) Other payables	923,665	894,006
Total (D)	6,441,480	5,389,558
E) ACCRUED EXPENSES AND DEFERRED INCOME	120,543	402,854
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**10,464,575**	**9,349,662**

INCOME STATEMENT

INCOME STATEMENT	31/12/2016	31/12/2015
A) Value of production		
1) Revenues from sales and services	11,155,080	10,759,268
2) Change in stocks of products in production, semifinished goods and finished goods	-	-
3) Change in construction contracts	-	-
4) Increase in non-current assets for internal projects	-	-
5) Other revenues and income	3,319,356	1,485,144
Total value of production	14,474,436	12,172,259
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	862	8,007
7) Services	7,705,599	6,167,410
8) Leaseholds	351,300	183,180
9) Personnel		
a) Wages and salaries	2,710,763	2,761,878
b) Social security contributions	758,178	867,988
c) Employee termination benefits	79,789	58,435
d) Post-employment benefits	250,863	248,308
e) Other costs	221,232	194,061
10) Depreciation, amortization and impairment losses		
a) Amortization	28,106	12,730
b) Depreciation	15,460	23,286
c) Other writedowns of non-current assets	-	-
d) Writedowns of receivables in current assets and cash and equivalents	616,647	857,333
11) Change in inventories of raw materials, ancillary products, consumables and goods	-	-
12) Provisions for risks and charges	-	-
13) Other provisions	-	-
14) Other operating expenses	336,831	421,850
Total costs of production (B)	13,075,629	11,484,721
Difference between value and cost of production (A-B)	1,398,807	687,538
C) Financial income and expense		
15) Income from equity investments	-	-
16) Other financial income		
a) from receivables recognized in non-current assets, with separate indication of those due from subsidiaries, associates and parent companies		
- from subsidiaries	-	-
- from associates	-	-
- from parent companies	-	-
- other	-	-
b) from securities recognized in non-current assets that do not represent equity investments	-	-
c) from securities recognized in current assets that do not represent equity investments	-	-
d) other	-	-
- from subsidiaries	-	-
- from associates	-	-

- from parent companies	-	-
- other (16 d)	257	4,670
17) Interest and other financial charges		
- from subsidiaries	-	-
- from associates	-	-
- from parent companies	-	-
- other (17)	34,279	77,266
17-bis) Exchange gains and losses	-	-
Total financial income and expense (C)	(34,022)	(72,595)
D) Value adjustments of financial assets		
18) revaluations	-	-
a) of equity investments	-	-
b) of non-current financial assets that do not represent equity investments	-	-
c) of securities recognized in current assets that do not represent equity investments (reval.)	-	-
19) writedowns	406,428	-
a) of equity investments	400,000	-
b) of non-current financial assets that do not represent equity investments	6,428	-
c) of securities recognized in current assets that do not represent equity investments (deval.)	-	-
Total adjustments	(406,428)	-
Profit (loss) before taxes (A - B + - C + - D)	958,357	367,350
22) Income tax expense for the period, current, deferred and prepaid		
a) current taxes	683,240	225,206
b) deferred tax liabilities	(3,606)	(7,892)
c) deferred tax assets	(120,135)	8,250
d) income (charges) from participation in consolidated taxation mechanism / fiscal transparency	-	-
Total income tax expense for the period	559,499	225,564
23) NET PROFIT (LOSS) FOR THE PERIOD	**398,857**	**141,786**

BCC SOLUTIONS - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS	31/12/2016	31/12/2015
NON-CURRENT ASSETS		
INTANGIBLES		
Software	396,050	614,820
Total intangibles	396,050	614,820
PROPERTY AND EQUIPMENT		
a) Land	14,712,657	14,712,657
b) Buildings	47,772,494	47,231,207
c) Pant and machinery	3,050,970	1,577,429
d) Furniture and fittings	545,742	542,282
e) Assets under construction and payments on account	17,836,130	10,848,809
f) Leasehold improvements		31,133
g) Other assets		192,107
Total property and equipment	83,917,993	75,135,624
OTHER NON-CURRENT ASSETS		
a) Receivables for security deposits	88,508	48,508
b) Equity investments	1,500	1,500
Total other non-current assets	90,008	50,008
DEFERRED TAX ASSETS		
Deferred tax assets (tax prepayments)	3,625	2,761
Total deferred tax assets	3,625	2,761
TOTAL NON-CURRENT ASSETS	84,407,676	75,803,213
CURRENT ASSETS		
TRADE RECEIVABLES		
a) trade receivables due from other companies	1,332,538	1,485,874
b) receivables due from parent company	1,387,311	432,019
c) receivables due from Group companies	3,589,957	3,558,467
d) other assets	336,687	268,920
Total trade receivables	6,646,492	5,745,280
CASH AND CASH EQUIVALENTS		
a) bank deposits	5,548,553	6,256,328
b) cash and valuables on hand	5,454	1,478
Total cash and cash equivalents	5,554,007	6,257,805
OTHER ASSETS		
a) Receivables due from others	436,862	843,576
b) Receivables due from parent company	393,434	436,131
c) Receivables due tax authorities for IRAP payment on account	183,840	285,555
Total other assets	1,014,136	1,565,262
TOTAL CURRENT ASSETS	13,214,635	13,568,347
TOTAL ASSETS	**97,622,311**	**89,371,560**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016	31/12/2015
SHAREHOLDERS' EQUITY		
Share capital	23,020,000	23,020,000
Legal reserve	313,659	285,609
Other reserves	31,947,544	31,952,948
Retained earnings	2,313,351	1,780,392
Net profit (loss) for the period	1,868,517	561,009
TOTAL SHAREHOLDERS' EQUITY	59,463,071	57,599,957
NON-CURRENT LIABILITIES		
NON-CURRENT FINANCIAL LIABILITIES		
Due to banks and financial institutions	20,348,113	22,138,438
Total financial liabilities	20,348,113	22,138,438
Employee termination benefits and other provisions for employees	189,343	219,790
Total employee termination benefits and other provisions for employees	189,343	219,790
Deferred taxation provision	1,854	1,854
Total deferred taxation	1,854	1,854
TOTAL NON-CURRENT LIABILITIES	20,539,310	22,360,082
TRADE PAYABLES		
Trade payables due to parent company	1,509,777	552,609
Trade payables due to Group companies	1,144,233	1,549,035
Trade payables	12,850,514	5,707,436
Other liabilities	25,011	238,581
Total trade payables	15,529,535	8,047,660
CURRENT TAX LIABILITIES		
Tax and social security liabilities	282,588	287,052
Due to tax authorities for IRAP	299,763	181,058
Due to tax authorities for VAT	98,638	-
Total current tax liabilities	680,989	468,109
OTHER LIABILITIES		
Due to parent company for IRES	1,222,587	599,268
Due to others	27,296	567
Due to employees	159,525	295,916
Total other liabilities	1,409,408	895,751
TOTAL CURRENT LIABILITIES	17,619,932	9,411,520
TOTAL LIABILITIES	38,159,242	31,771,602
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**97,622,311**	**89,371,560**

INCOME STATEMENT

INCOME STATEMENT	**31/12/2016**	**31/12/2015**
Revenues	31,543,437	25,472,587
Other income	1,649,817	408,430
Total operating revenue and income	33,193,255	25,881,017
Purchases of materials and external services	38,807	199,420
Personnel expenses	3,508,964	3,617,620
Other operating expenses	21,930,313	16,554,972
Operating income before depreciation and amortization	7,715,172	5,509,005
Depreciation, amortization and provisions	-	-
Depreciation	2,695,977	2,553,272
Amortization	638,573	584,461
Provisions	32,213	41,266
Operating income	4,348,409	2,330,006
Financial income	21,169	48,737
Financial expense	987,661	1,039,337
Profit before tax from continuing operations	3,381,917	1,339,406
Income tax expense for the period	(1,513,400)	(778,397)
Net profit for the period	1,868,517	561,009
Other comprehensive income	(5,404)	(2,214)
Total comprehensive income for the period	**1,863,113**	**558,795**

BANCA SVILUPPO - FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31/12/2016	31/12/2015
10.	Cash and cash equivalents	14,794,688	13,454,421
20.	Financial assets held for trading	2,913,951	2,620,703
30.	Financial assets at fair value		
40.	Financial assets available for sale	136,148,789	174,461,113
50.	Financial assets held to maturity	1,119,633,357	1,139,366,060
60.	Due from banks	542,759,130	298,319,427
70.	Loans to customers	1,284,771,086	845,746,539
80.	Hedging derivatives	712,418	
90.	Value adjustments of macro-hedged financial assets (+/-)		
100.	Equity investments		
110.	Property and equipment	68,579,107	37,435,995
120.	Intangible assets	1,265,436	2,213,920
	Of which: - goodwill	1,157,604	2,157,604
130.	Tax assets	56,392,066	14,534,798
	a) current	52,449,203	10,802,440
	b) deferred	3,942,863	3,732,357
	b1) of which L. 214/2011	3,490,449	3,674,157
140.	Non-current assets and disposal groups held for sale		
150.	Other assets	58,478,492	85,173,356
	Total assets	**3,286,448,522**	**2,613,326,331**

	Liabilities and shareholders' equity	31/12/2016	31/12/2015
10.	Due to banks	849,834,351	871,182,479
20.	Due to customers	1,554,855,244	1,207,934,666
30.	Securities issued	586,902,638	357,619,983
50.	Financial liabilities at fair value	21,389,236	
60.	Hedging derivatives	73,060	108,567
70.	Value adjustments of macro-hedged financial liabilities (+/-)		
80.	Tax liabilities	1,188,258	1,426,744
	a) current	34,404	
	b) deferred	1,153,854	1,426,744
100.	Other liabilities	89,140,064	63,086,745
110.	Employee termination benefits	7,699,708	6,262,428
120.	Provisions for risks and charges	38,061,093	20,159,527
	a) post-employment benefits		
	b) other provisions	38,061,093	20,159,527
130.	Valuation reserves	1,309,646	1,928,705
160.	Reserves	2,248,337	29,730,612
165.	Interim dividends (-)		
170.	Share premium reserve	178,403	178,403
180.	Share capital	132,511,683	51,948,395
200.	Net profit (loss) for the period	1,056,800	1,759,077
	Total shareholders' equity and liabilities	**3,286,448,522**	**2,613,326,331**

INCOME STATEMENT

	Income statement	31/12/2016	31/12/2015
10.	Interest and similar income	55,107,790	44,911,392
20.	Interest and similar expense	(21,719,022)	(18,024,670)
30.	Net interest income	33,388,768	26,886,722
40.	Fee and commission income	24,002,085	16,002,699
50.	Fee and commission expense	(2,314,210)	(1,762,605)
60.	Net fee and commission income (expense)	21,687,875	14,240,094
70.	Dividends and similar income	187,960	13,313
80.	Net gain (loss) on trading activities	(596,192)	1,406,324
90.	Net gain (loss) on hedging activities	(445,703)	(313)
100.	Net gain (loss) on the disposal or repurchase of:	2,228,811	3,926,056
	a) loans	463,346	
	b) financial assets available for sale	1,780,622	3,860,438
	c) financial assets held to maturity		45,862
	d) financial liabilities	(15,158)	19,755
110.	Net gain (loss) on financial assets and liabilities designated as at fair value	(146,301)	
120.	Gross income	56,305,217	46,472,196
130.	Net losses/recoveries on impairment:	(701,401)	(4,461,748)
	a) loans	(701,401)	(4,461,748)
140.	Net income (loss) from financial operations	55,603,816	42,010,448
150.	Administrative expenses	(60,214,327)	(42,417,941)
	a) personnel expenses	(31,367,983)	(21,610,471)
	b) other administrative expenses	(28,846,344)	(20,807,470)
160.	Net provisions for risks and charges	63,937	(62,399)
170.	Net adjustments of property and equipment	(2,453,005)	(1,147,812)
180.	Net adjustments of intangible assets	(45,696)	(36,522)
190.	Other operating expenses/income	8,423,051	4,216,749
200.	Operating expenses	(54,226,039)	(39,447,924)
240.	Profit (loss) from equity investments	(19,250)	
250.	Profit (loss) before tax on continuing operations	1,358,527	2,562,524
260.	Income tax expense from continuing operations	(301,727)	(803,447)
270.	Profit (loss) after tax on continuing operations	1,056,800	1,759,077
280.	Profit (loss) after tax from disposal groups		
290.	**Net profit (loss) for the period**	**1,056,800**	**1,759,077**

SECURFONDO - PERFORMANCE AND FINANCIAL POSITION

BALANCE SHEET

ASSETS		31/12/2016	31/12/2015
A	Financial instruments	1,777,429	3,785,701
B	Property and property rights	25,171,000	91,500,000
C	Receivables		
D	Bank deposits	14,028,866	12,000,000
E	Other goods		
F	Net liquidity position	27,388,261	3,034,162
G	Other assets	6,511,474	2,516,350
	Total	**74,877,030**	**112,836,213**

LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/2016	31/12/2015
H	Financing received		
G	Financial derivatives		
L	Due to investors		
M	Other liabilities	1,965,762	1,020,145
	Total net value of Fund	72,911,268	111,816,068
	Total	**74,877,030**	**112,836,213**

INCOME STATEMENT

		31/12/2016	31/12/2015
A	Financial instruments	(2,596,264)	(2,084,247)
B	Property and property rights	(22,925,223)	3,390,671
C	Receivables		
D	Bank deposits	22,151	6,904
E	Other goods		
F	Exchange gains (losses)		
G	Other operational transactions		
H	Financial expense		
I	Management expense	(794,685)	(1,502,904)
L	Other revenue and charges	385,221	51,394
290.	**Profit (loss) for the period**	**(25,908,800)**	**(138,182)**

BCC CREDITO CONSUMO - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS		31/12/2016	31/12/2015
10.	Cash and cash equivalents	42,146	28,054
40.	Financial assets available for sale	30,000	30,000
60.	Receivables	916,206,721	843,302,082
100.	Property and equipment	57,342	95,813
110.	Intangible assets	50,126	63,819
120.	Tax assets	10,568,657	10,875,134
	a) current	424,212	177,541
	b) deferred	10,144,445	10,697,593
140.	Other assets	4,726,714	6,835,230
	TOTAL ASSETS	**931,681,706**	**861,230,133**

LIABILITIES AND SHAREHOLDERS' EQUITY		31/12/2016	31/12/2015
10.	Payables	848,968,320	782,042,943
90.	Other liabilities	19,528,845	18,246,653
100.	Employee termination benefits	139,000	65,520
	TOTAL LIABILITIES	868,636,164	800,355,115
120.	Share capital	41,000,000	41,000,000
160.	Reserves	12,175,018	11,762,289
170.	Valuation reserves	(6,607)	-
180.	Net profit (loss) for the period	9,877,131	8,112,729
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**931,681,706**	**861,230,133**

INCOME STATEMENT

	INCOME STATEMENT	31/12/16	31/12/15
10.	Interest and similar income	63,761,171	61,321,714
20.	Interest and similar expense	(22,511,816)	(24,444,772)
	NET INTEREST INCOME	41,249,356	36,876,942
30	Fee and commission income	5,887,039	7,803,024
40.	Fee and commission expense	(3,280,172)	(2,796,633)
	NET FEE AND COMMISSION INCOME	2,606,867	5,006,391
90.	Net gain (loss) on the disposal or repurchase of:	(220,730)	(236,845)
	a) financial assets	(220,730)	(236,845)
	GROSS INCOME	43,635,493	41,646,488
100.	Net losses/recoveries on impairment:	(13,464,174)	(17,361,477)
	a) financial assets	(13,464,174)	(17,361,477)
110.	Administrative expenses	(19,322,810)	(14,361,244)
	a) personnel expenses	(3,531,901)	(3,616,942)
	b) other administrative expenses	(15,790,910)	(10,744,303)
120.	Net adjustments of property and equipment	(37,214)	(52,663)
130.	Net adjustments of intangible assets	(28,333)	(36,621)
160.	Other operating expenses/income	3,274,097	1,922,531
	OPERATING RESULT	14,057,059	11,757,013
	PROFIT (LOSS) BEFORE TAX ON CONTINUING OPERATIONS	14,057,059	11,757,013
190.	Income tax expense from continuing operations	(4,179,928)	(3,644,284)
	PROFIT (LOSS) AFTER TAX ON CONTINUING OPERATIONS	9,877,131	8,112,729
	NET PROFIT (LOSS) FOR THE PERIOD	**9,877,131**	**8,112,729**

BCC BENI IMMOBILI - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS	31/12/2016	31/12/2015
A) Receivables due from shareholders for capital payments not yet paid in	-	-
B) Non-current assets		
I – Intangibles		
- Deferred charges	-	-
- Software	-	-
TOTAL INTANGIBLES	-	-
II – Property and equipment		
1) land and buildings		
- land	295,326	295,326
- buildings	23,406,192	22,492,500
2) plant and machinery		
- specific plant	2,026,047	2,427,853
- generic plant	-	-
3) industrial and commercial equipment	-	-
4) other goods	29,563	185
5) furnishings	123	34,858
6) assets under construction	-	-
TOTAL PROPERTY AND EQUIPMENT	25,757,251	25,250,722
III – Financial		
1) equity investments in:		
- associates	-	-
- other companies	-	-
2) security deposits	310	310
3) advances on termination benefits	-	-
TOTAL FINANCIAL	310	310
TOTAL NON-CURRENT ASSETS	25,757,561	25,251,032
C) Current assets		
I – Inventories	-	-
TOT. INVENTORIES	-	-
II – Receivables		
1) due from customers	-	188,983
(of which: more than one year €0.00)		
3) due from associates	-	-
4) due from parent companies	-	-
4-bis) tax receivables		
- tax payments on account and withholdings	-	3,420
- VAT credit	39,443	-
- receivables due from consolidating entity	37,923	220,211
4-ter) deferred tax assets	44,280	27,723
5) due from others		
- other investees	-	-
- other receivables and assets	72,603	72,603
- invoices to be issued	-	-

(of which: more than one year €0.00)		
TOTAL RECEIVABLES	194,249	512,940
III – Current financial assets		
1) securities	-	-
2) securities for repurchase agreements		
TOT. CURRENT FINANCIAL ASSETS.	-	-
IV – Cash and cash equivalents		
1) bank and postal deposits		
2) cash and valuables on hand	427	112
TOTAL CASH AND CASH EQUIVALENTS	427	112
TOTAL CURRENT ASSETS	194,676	513,052
D) Accrued income and prepaid expenses	12,642	11,054
TOTAL ASSETS	**25,964,879**	**25,775,138**

LIABILITIES	31/12/2016	31/12/2015
A) Shareholders' equity		
I – Share capital	12,649,000	12,649,000
II – Share premium reserve	5,581,000	5,581,000
III – Revaluation reserve	-	-
IV – Legal reserve	4,759	4,759
V – Reserve for treasury shares	-	-
VI - Reserves established in bylaws	-	-
VII - Other reserves	-	-
1) extraordinary reserve	-	-
2) euro translation reserve	-	-
VIII - Retained earnings (loss carried forward)	(1,480,315)	(1,389,865)
IX - Net profit (loss) for the period	115,307	(90,450)
TOTAL SHAREHOLDERS' EQUITY	16,869,751	16,754,444
B) Provisions for risks and charges		
1) provision for ICI assessments	-	-
2) provision for deferred taxation	-	-
3) other	-	-
TOTAL PROVISIONS FOR RISKS AND CHARGES	-	-
C) Employee termination benefits		
1) Termination benefits	-	8,191
TOTAL EMPLOYEE TERMINATION BENEFITS	-	8,191
D) Payables		
1) due to banks	8,657,298	6,908,347
(of which: more than one year €5,565,695)		
2) due to other lenders	-	-
(of which: more than one year €0.00)		
3) suppliers	248,500	1,388,392
(of which: more than one year €0.00)		
4) invoices to be received	21,368	607,461
(of which: more than one year €0.00)		
5) tax authorities		
- IRES for year	-	-
- IRAP	12,743	13,421
- tax authorities for VAT liability	-	-
- tax authorities for withholdings	-	2,107
- due to consolidating entity	150,580	0
(of which: more than one year €0.00)		
6) social security institutions	-	1,130
(of which: more than one year €0.00)		
7) other	-	86,771
(of which: more than one year €0.00)		
TOTAL PAYABLES	9,090,489	9,007,629
E) Accrued expenses and deferred income	4,638	4,874
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**25,964,879**	**25,775,138**

INCOME STATEMENT

INCOME STATEMENT	31/12/2016	31/12/2015
A) Value of production		
1) Revenues from sales and services	1,927,596	1,100,222
2) Change in stocks of products in production, semifinished goods and finished goods	-	-
3) Change in construction contracts	-	-
4) Increase in non-current assets for internal projects	-	-
5) Other revenues and income	11,596	24,342
TOTAL VALUE OF PRODUCTION	1,939,192	1,124,564
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	-	-
7) Services	97,896	113,625
8) Leaseholds	-	-
9) Personnel:		
wages and salaries	10,450	35,134
social security contributions	4,623	8,830
employee termination benefits	725	2,093
- other costs	-	9,900
10) Depreciation, amortization and impairment losses		
- Amortization	-	-
- Depreciation	1,144,245	572,694
- Writedowns of receivables	-	-
11) Change in inventories of raw materials, ancillary products, consumables and goods	-	-
12) Provisions for risks and charges	-	-
13) Other provisions	-	-
14) Other operating expenses	278,916	346,353
TOTAL PRODUCTION COSTS	1,536,856	1,088,630
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	402,336	35,934
C) financial income and expense		
15) Income from equity investments	-	-
16) Other financial income		
- from securities recognized in current assets that do not represent equity investments	-	-
- from associates	-	254
-other interest income	-	-
17) Interest and other financial charges		
- from associates	126,131	50,666
- other	-	-
TOTAL FINANCIAL INCOME AND EXPENSE	126,131	(50,412)
D) Value adjustment of financial assets		
18) revaluations:	-	-
19) writedowns:		
- of equity investments	-	-
TOTAL ADJUSTMENTS	-	-
PROFIT (LOSS) BEFORE TAXES	276,205	(14,478)
22a) Income tax expense for the period	177,455	91,063
22b) Deferred liabilities	-	-
22c) Deferred assets	(16,557)	(15,091)
23) RESULT FOR THE PERIOD	115,307	(90,450)
26) NET PROFIT (LOSS) FOR THE PERIOD	**115,307**	**(90,450)**

BCC RISPARMIO E PREVIDENZA - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS		31/12/2016	31/12/2015
10	Cash and cash equivalents	1,054	597
40	Financial assets available for sale	6,940,354	14,772,464
60	Receivables		
	a) asset management	5,130,373	8,063,208
	b) other	39,311,661	32,633,701
100	Property and equipment	5,130,814	5,340,269
110	Intangible assets	158,545	200,713
120	Tax assets		
	a) current	363,267	-
	b) deferred	351,049	426,383
140	Other assets	4,743,515	3,900,555
	TOTAL ASSETS	**62,130,632**	**65,337,890**

	LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016	31/12/2015
10	Payables	21,141,248	17,803,388
70	Tax liabilities		
	a) current		194,563
	b) deferred	245,515	265,808
90	Other liabilities	6,551,158	8,342,046
100	Employee termination benefits	309,116	287,486
110	Provisions for risks and charges		
	a) post-employment benefits	33,915	29,799
	b) other provisions	140,200	22,090
	Total liabilities	28,421,152	26,945,180
120	Share capital	8,500,000	8,500,000
150	Share premium reserve	1,337,801	1,337,801
160	Reserves	15,746,574	15,691,041
170	Valuation reserve	71,249	58,335
180	Net profit (loss) for the period	8,053,856	12,805,533
	Total shareholders' equity	33,709,480	38,392,710
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**62,130,632**	**65,337,890**

INCOME STATEMENT

	31/12/2016	31/12/2015
10 Fee and commission income	103,298,131	94,318,484
20 Fee and commission expense	(74,854,999)	(61,302,026)
NET FEE AND COMMISSION INCOME	28,443,132	33,016,458
40 Interest and similar income	158,762	384,389
90 Net gain (loss) on the disposal or repurchase of:		
a) financial assets	(136,128)	(382,500)
GROSS INCOME	28,465,766	33,018,347
110 Administrative expenses		
a) personnel expenses	(5,667,925)	(6,384,536)
b) other administrative expenses	(10,092,774)	(7,504,607)
120 Net adjustments of property and equipment	(224,869)	(235,665)
130 Net adjustments of intangible assets	(141,996)	(134,207)
150 Net provisions for risks and charges	(118,333)	394,705
160 Other operating expenses/income	116,377	194,147
OPERATING RESULT	12,336,246	19,348,184
PROFIT (LOSS) BEFORE TAX ON CONTINUING OPERATIONS	12,336,246	19,348,184
190 Income tax expense from continuing operations	(4,282,390)	(6,542,651)
PROFIT (LOSS) AFTER TAX ON CONTINUING OPERATIONS	8,053,856	12,805,533
NET PROFIT (LOSS) FOR THE PERIOD	**8,053,856**	**12,805,533**

BCC SISTEMI INFORMATICI - FINANCIAL STATEMENTS

BALANCE SHEET

Assets	31/12/2016	31/12/2015
A) Receivables due from shareholders for capital payments not yet paid in		
B) Non-current assets		
I. Intangibles		
3) Concessions, licenses, trademarks and similar rights	6,658,207	6,253,164
6) Assets under development and payments on account	778,333	1,272,845
7) Other	666,025	1,332,420
	8,102,565	8,858,429
II. Property and equipment		
1) Land and buildings	591,921	607,763
2) Plant and machinery	1,389,067	2,387,607
3) Commercial and industrial equipment	66,570	122,648
4) Other goods	63,098	80,251
5) Assets under construction and payments on account	329,088	51,598
	2,439,744	3,249,867
III. Financial		
1) Equity investments in:		
d-bis) other companies	16,791	16,791
2) Receivables		
d-bis) from others		700,000
- within one year		
-		
3) Other securities		
4) Financial derivative assets		
	16,791	716,791
-		
Total non-current assets	10,559,100	12,825,087
C) Current assets		
I. Inventories		
II. Receivables		
1) due from customers		
- within one year	10,246,045	5,388,551
4) due from parent companies		
- within one year	7,354,921	3,135,670
5) due from companies under control of parent companies		
- within one year	1,140,525	1,167,697
5-bis) tax receivables		
- within one year	2,242,088	2,567,405
5-ter) deferred tax assets		
- within one year	503,741	561,603
- more than one year	1,165,998	349,603
5-quater) due from others		
- within one year	157,505	301,002
- more than one year	29,041	26,772
	22,839,864	13,498,303
III. Financial assets that do not represent non-current assets		
IV. Cash and cash equivalents		
1) bank and postal deposits	29,161,270	30,681,939
3) cash and valuables on hand	3,671	1,980
Total current assets	52,004,805	44,182,222
D) Accrued income and prepaid expenses	3,910,643	3,670,080
Total assets	**66,474,548**	**60,677,389**

Liabilities	**31/12/2016**	**31/12/2015**
A) Shareholders' equity		
I. Share capital	33,993,500	33,993,500
IV. Legal reserve	876,363	838,909
V. Reserves established in bylaws	3,430,867	3,430,867
VI. Other reserves	(1)	
Differences from rounding to nearest euro		
VII. Reserve from cash flow hedges		
VIII. Retained earnings (loss carry forward)	1,896,978	1,185,353
IX. Net profit (loss) for the period	201,006	749,079
X. Negative reserve for treasury shares	(489,500)	498,500
Total shareholders' equity	39,900,213	39,699,208
B) Provisions for risks and charges		
1) post-employment benefits	267,141	310,923
4) other provisions	4,877,705	882,634
Total provisions for risks and charges	5,144,846	1,193,557
C) Employee termination benefits	2,669,710	2,872,791
D) Payables		
7) Due to suppliers		
- within one year	12,599,897	12,167,371
11) Due to parent companies		
- within one year	3,168,994	1,666,982
11-bis) Due to companies under control of parent companies		
- within one year	98,180	48,056
12) Tax payables		
- within one year	727,294	718,263
13) Due to social security institutions		
- within one year	1,089,725	1,123,823
14) Other payables		
- within one year	950,689	1,187,338
Total payables	18,634,779	16,911,833
E) Accrued expenses and deferred income	125,000	
Total liabilities	**66,474,548**	**60,677,389**

INCOME STATEMENT

Income statement	31/12/2016	31/12/2015
A) Value of production		
1) Revenues from sales and services	80,461,098	79,816,487
4) Increase in non-current assets for internal projects	1,947,347	1,487,130
5) Other revenues and income:		
- sundry	1,179,088	521,552
Total value of production	83,587,533	81,825,168
B) Production costs		
6) Raw materials, ancillary products, consumables and goods	102,488	236,733
7) Services	42,590,468	42,226,944
8) Leaseholds	8,223,716	8,110,080
9) Personnel		
a) Wages and salaries	14,555,144	15,381,879
b) Social security contributions	3,683,214	3,766,791
c) Employee termination benefits	947,086	1,026,063
d) Post-employment benefits	15,494	18,289
e) Other costs	5,382,445	929,151
	24,583,383	21,122,173
10) Depreciation, amortization and impairment losses		
a) Amortization	5,718,731	6,230,369
b) Depreciation	1,186,116	1,507,304
c) Other writedowns of non-current assets	132,264	459,500
d) Writedowns of receivables in current assets and cash and equivalents	25,479	48,592
11) Change in inventories of raw materials, ancillary products, consumables and goods		219,616
12) Provisions for risks and charges	15,041	185,600
13) Other provisions		9,899
14) Other operating expenses	127,302	358,236
Total production costs	82,704,988	80,715,046
Difference between value and cost of production (A-B)	882,545	1,110,123
C) Financial income and expense		
15) Income from equity investments:		
- other	5	17
16) Other financial income:		
d) other:		
- from parent companies		90
- from companies under control of parent companies	4,572	
- other		
	146,889	290,890
17) Interest and other financial charges:		
- other	677	9
17-bis) Exchange gains and losses	2,802	(8,782)
Total financial income and expense	149,019	282,166
D) Value adjustments of financial assets and liabilities		
Total adjustments of financial assets		
Profit (loss) before taxes (A-B±C±D)	1,031,564	1,392,239
20) Income tax expense for the period, current, deferred and prepaid		
a) Current	1,589,091	87,626
c) Deferred	(758,533)	555,534
21) Net profit (loss) for the period	**201,006**	**749,079**

ACCADEMIA BCC - FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31/12/2016	31/12/2015
B)	NON-CURRENT ASSETS		
I)	INTANGIBLES	-	755
II)	PROPERTY AND EQUIPMENT	4,978	7,856
TOTAL B)		4,978	8,611
C)	CURRENT ASSETS		
II)	RECEIVABLES	-	-
1)	Due from customers	1,560,948	1,728,332
4-bis)	Tax receivables	-	68,861
5)	Other receivables	-	204736.5
IV)	CASH AND CASH EQUIVALENTS	-	
1)	Bank and postal deposits	598,890	674,289
3)	Cash and valuables on hand		375.53
TOTAL C)		2,159,838	2,676,593
D)	ACCRUALS AND DEFERRALS		
	ACCRUED INCOME AND PREPAID EXPENSE	6,673	5,148
TOTAL D)		6,673	5,148
	Total Assets	**2,171,489**	**2,690,353**

	Liabilities and shareholders' equity	31/12/2016	31/12/2015
A)	SHAREHOLDERS' EQUITY		
I)	Share capital	800,000	800,000
IV)	Legal reserve	7,925	936
VII)	Other reserves	857	857
VIII)	Retained earnings (loss carried forward)	(308,804)	(441,599)
IX)	Net profit (loss) for the period	8,594	68,608
TOTAL A)		508,572	428,802
B)	PROVISIONS FOR RISKS AND CHARGES	70,570	70,570
C)	EMPLOYEE TERMINATION BENEFITS	121,302	166,681
D)	PAYABLES (falling due within next year)		
7)	Due to suppliers	1,464,617	1,563,551
12)	Due to tax authorities	-	246,075
13)	Due to social security institutions	-	51,774
14a)	Other payables	-	140,557
TOTAL D)		1,464,617	2,001,957
E) ACCRUED EXPENSES AND DEFERRED INCOME		6428	22342.14
	Total liabilities	**2,171,489**	**2,690,352**

INCOME STATEMENT

		31/12/2016	31/12/2015
A)	VALUE OF PRODUCTION	2,407,856	3,278,315
1)	Revenues from sales and services	2,223,267	2,298,418
5a)	Other revenues and income	-	196,897
5b)	Operating grants	184,589	783,000
B)	PRODUCTION COSTS	2,375,820	3,274,201
6)	Raw materials	11,582	12,923
7)	Services	1,469,218	1,638,215
8)	Leaseholds	61,260	142,583
9)	Personnel	789,513	1,446,582
10)	Depreciation, amortization and impairment losses	8,334	2,818
12)	Provisions for risks and charges	-	-
14)	Other operating expenses	35,913	31,080
A-B	Difference between value and cost of production	32,036	4,115
C)	FINANCIAL INCOME AND EXPENSE	95	51
16)	Other financial income	95	51
E)	NON-RECURRING INCOME AND EXPENSE	-	(6,558)
20)	Income	-	2,649
21)	Expense	-	9,207
	PROFIT (LOSS) BEFORE TAXES	32,131	(2,392)
22)	INCOME TAX EXPENSE FOR THE PERIOD	23,537	71,000
	NET PROFIT (LOSS) FOR THE PERIOD	**8,594.00**	**68,607.67**

HI-MTF - FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31/12/2016		31/12/2015	
10.	Cash and cash equivalents		135		104
60.	Receivables		6,397,642		6,341,396
100.	Property and equipment		20,345		12,720
110.	Intangible assets		140,207		69,612
120	Tax assets		109,583		150,639
	a) current	95,833		150,639	
	a) deferred	13,750		-	
140.	Other assets		85,249		90,973
	Total assets		**6,753,161**		**6,665,444**

	Liabilities and shareholders' equity	31/12/2016	31/12/2015
10.	Payables	-	-
70.	Tax liabilities		
	a) current	-	-
	b) deferred	-	-
90.	Other liabilities	383,989	404,040
100.	Employee termination benefits	202,096	169,529
120.	Share capital	5,000,000	5,000,000
160.	Reserves	1,095,984	1,004,396
180.	Net profit (loss) for the period	71,091	87,480
	Total liabilities and shareholders' equity	**6,753,161**	**6,665,444**

INCOME STATEMENT

			31/12/2016		31/12/2015
50.	Fee and commission income		2,616,653		2,566,944
60.	Fee and commission expense		(4,290)		(2,447)
70.	Interest and similar income		59,881		67,475
80.	Interest and similar expense		-		(3)
	Gross income		**2,672,243**		**2,631,970**
110.	Administrative expenses:		(2,484,496)		(2,429,837)
	a) personnel expenses	(1,048,023)		(1,041,587)	
	b) other administrative expense	(1,436,473)		(1,388,250)	
120.	Net adjustments of property and equipment		(6,029)		(4,721)
130.	Net adjustments of intangible assets		(53,305)		(43,637)
160.	Other operating expenses/income		(17,824)		(17,743)
	Operating result		**110,589**		**136,032**
	Profit (loss) before tax on continuing operations		**110,589**		**136,032**
190.	Income tax expense from continuing operations		(39,498)		(48,551)
	Profit (loss) after tax on continuing operations		**71,091**		**87,480**
	Net profit (loss) for the period		**71,091**		**87,480**

M – FACILITY S.P.A. - FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31/12/2016	31/12/2015
B)	NON-CURRENT ASSETS		
I)	INTANGIBLES	4,812	789
Ia)	GROSS INTANGIBLES	649,389	1,139,589
TOTAL B)		654,201	1,140,378
C)	CURRENT ASSETS	39,612	508,909
II)	RECEIVABLES		
4-bis)	TAX RECEIVABLES		
4a)	FALLING DUE WITHIN NEXT YEAR	149,459	95,722
IV)	CASH AND CASH EQUIVALENTS		
1)	BANK AND POSTAL DEPOSITS	39,612	508,909
TOTAL C)		189,071	604,631
	Total assets	**843,272**	**1,745,009**

	Liabilities and shareholders' equity	31/12/2016	31/12/2015
A)	SHAREHOLDERS' EQUITY		
I)	SHARE CAPITAL	1,879,000	1,879,000
IV)	OTHER RESERVES	-	1
VIII)	RETAINED EARNINGS (LOSS CARRIED FORWARD)	(648,055)	(30,653)
IX)	NET PROFIT (LOSS) FOR THE PERIOD	(485,673)	(145,740)
TOTAL A)		745,272	1,702,608
C)	EMPLOYEE TERMINATION BENEFITS	2,685	-
D)	PAYABLES		
7)	TO SUPPLIERS	95,315	-
7a)	FALLING DUE WITHIN NEXT YEAR	-	42,401
12)	TO TAX AUTHORITIES	-	-
TOTAL D)		95,315	42,401
	Total liabilities and shareholders' equity	**843,272**	**1,745,009**

INCOME STATEMENT

		31/12/2016	31/12/2015
A)	VALUE OF PRODUCTION	4	(36)
B)	PRODUCTION COSTS	478,177	213,898
6)	RAW MATERIALS	899	40
7)	SERVICES	194,582	123,338
9)	PERSONNEL	30,366	
10)	DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	247,133	89,025
14)	OTHER OPERATING EXPENSES	5,197	1,495
C)	FINANCIAL INCOME AND EXPENSE	(7,500)	(100)
17)	INTEREST AND OTHER FINANCIAL CHARGES	-	17
17a)	BANK INTEREST EXPENSE	(7,500)	(117)
E)	NON-RECURRING INCOME AND EXPENSE		
	PROFIT (LOSS) BEFORE TAXES (A-B+C+D+E)	(485,673)	(214,034)
	INCOME TAX	-	(68,294)
	NET PROFIT (LOSS) FOR THE PERIOD	**(485,673)**	**(145,740)**

BCC ASSICURAZIONI - FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31/12/2016	31/12/2015
B)	NON-CURRENT ASSETS		
I)	INTANGIBLES	44,589	3,273
	PROPERTY AND EQUIPMENT	-	-
	FINANCIAL	61,441,509	53,988,401
TOTAL B)		61,486,098	53,991,674
C)	CURRENT ASSETS	-	-
II)	RECEIVABLES		
4-bis)	TAX RECEIVABLES		
4a)	FALLING DUE WITHIN NEXT YEAR	16,116,221	15,122,232
IV)	CASH AND CASH EQUIVALENTS		
1)	BANK AND POSTAL DEPOSITS	-	-
TOTAL C)		16,116,221	15,122,232
D)	ACCRUALS AND DEFERRALS	-	-
	ACCRUED INCOME AND PREPAID EXPENSE	-	-
	Total assets	**77,602,319**	**69,113,906**

	Liabilities and shareholders' equity	31/12/2016	31/12/2015
A)	SHAREHOLDERS' EQUITY		
I)	SHARE CAPITAL	14,448,000	14,448,000
	RESERVES	356,269	355,359
IV)	OTHER RESERVES	50,663,987	40,551,149
VIII)	RETAINED EARNINGS (LOSS CARRIED FORWARD)	(1,139,081)	(1,156,365)
IX)	NET PROFIT (LOSS) FOR THE PERIOD	(2,271,810)	18,194
TOTAL A)		62,057,365	54,216,337
B)	PROVISIONS FOR RISKS AND CHARGES	2,278,212	1,208,719
C)	EMPLOYEE TERMINATION BENEFITS	-	-
D)	PAYABLES		
7)	TO SUPPLIERS	1,380,800	634,134
7a)	FALLING DUE WITHIN NEXT YEAR	-	-
12)	TO TAX AUTHORITIES	-	-
	OTHER	11,885,942	13,054,716
TOTAL D)		13,266,742	13,688,850
	Total liabilities and shareholders' equity	**77,602,319**	**69,113,906**

INCOME STATEMENT

		31/12/2016	31/12/2015
A)	VALUE OF PRODUCTION	1,084,572	1,058,554
B)	PRODUCTION COSTS	4,176,184	757,925
6)	RAW MATERIALS	-	-
7)	SERVICES	4,176,184	757,925
9)	PERSONNEL	-	-
1-)	DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	-	-
14)	OTHER OPERATING EXPENSES	-	-
C)	FINANCIAL INCOME AND EXPENSE	-	-
17)	INTEREST AND OTHER FINANCIAL CHARGES	-	-
17a)	BANK INTEREST EXPENSE	-	-
E)	NON-RECURRING INCOME AND EXPENSE	-	-
	PROFIT (LOSS) BEFORE TAXES (A-B+C+D+E)	(3,091,612)	300,629
	INCOME TAX	819,802	(282,435)
	NET PROFIT (LOSS) FOR THE PERIOD	**(2,271,810)**	**18,194.00**

BCC VITA - FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31/12/2016	31/12/2015
B)	NON-CURRENT ASSETS		
I)	INTANGIBLES	-	-
	PROPERTY AND EQUIPMENT	11,602	-
	FINANCIAL	2,629,293,229	2,394,832,435
TOTAL B)		2,629,304,831	2,394,832,435
C)	CURRENT ASSETS	-	-
II)	RECEIVABLES		
4-bis)	TAX RECEIVABLES		
4a)	FALLING DUE WITHIN NEXT YEAR	50,010,500	47,366,731
IV)	CASH AND CASH EQUIVALENTS		
1)	BANK AND POSTAL DEPOSITS	-	-
TOTAL C)		50,010,500	47,366,731
D)	ACCRUALS AND DEFERRALS	16,818,400	17,590,938
	ACCRUED INCOME AND PREPAID EXPENSE	16,818,400	17,590,938
	Total assets	**2,696,133,731**	**2,459,790,104**

	Liabilities and shareholders' equity	31/12/2016	31/12/2015
A)	SHAREHOLDERS' EQUITY		
I)	SHARE CAPITAL	62,000,000	62,000,000
	RESERVES	3,882,012	3,461,861
IV)	OTHER RESERVES	2,582,350,217	2,349,670,100
VIII)	RETAINED EARNINGS (LOSS CARRY FORWARD)	7,899,511	7,852,641
IX)	NET PROFIT (LOSS) FOR THE PERIOD	9,055,228	8,403,020
TOTAL A)		2,665,186,968	2,431,387,622
B)	PROVISIONS FOR RISKS AND CHARGES	1,045,040	780,000
C)	EMPLOYEE TERMINATION BENEFITS	-	-
D)	PAYABLES		
7)	SUPPLIERS	5,020,004	6,669,722
7a)	FALLING DUE WITHIN NEXT YEAR	-	-
12)	TAX AUTHORITIES	-	-
	OTHER	24,881,719	20,952,760
TOTAL D)		29,901,723	27,622,482
	Total liabilities and shareholders' equity	**2,696,133,731**	**2,459,790,104**

INCOME STATEMENT

		31/12/2016	31/12/2015
A)	VALUE OF PRODUCTION	404,235,921	622,113,274
B)	PRODUCTION COSTS	(372,688,397)	(585,829,700)
6)	RAW MATERIALS	-	-
7)	SERVICES	(361,503,313)	(577,124,307)
9)	PERSONNEL	-	-
10)	DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	-	-
14)	OTHER OPERATING EXPENSES	(11,185,084)	(8,705,393)
C)	FINANCIAL INCOME AND EXPENSE	(17,480,288)	(21,610,923)
17)	INTEREST AND OTHER FINANCIAL CHARGES	(17,480,288)	(21,610,923)
17a)	BANK INTEREST EXPENSE	-	-
E)	NON-RECURRING INCOME AND EXPENSE	402,961	441,015
	PROFIT (LOSS) BEFORE TAXES (A-B+C+D+E)	14,470,197	15,113,666
	INCOME TAX	5,414,971	6,710,646
	NET PROFIT (LOSS) FOR THE PERIOD	**9,055,226**	**8,403,020**

VENTIS - FINANCIAL STATEMENTS

BALANCE SHEET

	ASSETS	31/12/2016
10	Cash and cash equivalents	979,339
40	Financial assets available for sale	-
60	Receivables	-
	b) other	225,377
100	Property and equipment	101,629
110	Intangible assets	625,313
120	Tax assets	-
	a) current	2,789
	a) deferred	369,924
140	Other assets	283,707
	TOTAL ASSETS	**2,588,078**

	LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016
10	Payables	2,020,772
70	Tax liabilities	-
	a) current	-
	b) deferred	-
90	Other liabilities	729,275
100	Employee termination benefits	26,652
110	Provisions for risks and charges	-
	a) post-employment benefits	-
	b) other provisions	-
	Total liabilities	2,776,699
120	Share capital	200,000
150	Share premium reserve	810,000
160	Reserves	29,871
170	Valuation reserves	-
180	Net profit (loss) for the period	(1,228,492)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,588,078**

INCOME STATEMENT

	INCOME STATEMENT	31/12/2016
10	Fee and commission income	-
20	Fee and commission expense	-
	NET FEE AND COMMISSION INCOME	-
40	Interest and similar income	132
	Interest expense	(17,536)
	NET INTEREST INCOME	(17,404)
90	Net gain (loss) on the disposal or repurchase of:	-
	a) financial assets	-
	GROSS INCOME	(17,404)
110	Administrative expenses:	
	a) personnel expenses	(912,745)
	b) other administrative expense	(1,129,665)
120	Net adjustments of property and equipment	(10,118)
130	Net adjustments of intangible assets	(80,887)
150	Net provisions for risks and charges	-
160	Other operating expenses/income	552,471
	PROFIT (LOSS) BEFORE TAX ON CONTINUING OPERATIONS	(1,598,348)
190	Income tax expense from continuing operations	369,856
	NET PROFIT (LOSS) FOR THE PERIOD	**(1,228,492)**

BCC RETAIL - FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS	31/12/2016	31/12/2015
B) NON-CURRENT ASSETS		
I - TOTAL INTANGIBLES	226,722	359,776
II - TOTAL PROPERTY AND EQUIPMENT	22,580	32,667
III – FINANCIAL ASSETS		
Financial assets	1	1
TOTAL FINANCIAL ASSETS	1	1
TOTAL NON-CURRENT ASSETS (B)	249,303	392,444
C) CURRENT ASSETS		
II – RECEIVABLES		
falling due within subsequent year	1,208,729	1,098,520
falling due beyond subsequent year	11,824	11,824
TOTAL RECEIVABLES	1,220,553	1,110,344
IV - CASH AND CASH EQUIVALENTS	3,054,015	4,014,222
TOTAL CURRENT ASSETS (C)	4,274,568	5,124,566
D) ACCRUALS AND DEFERRALS		
Accrued income and prepaid expense	28,748	44,775
TOTAL ACCRUALS AND DEFERRALS (D)	28,748	44,775
TOTAL ASSETS	**4,552,619**	**5,561,785**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016	31/12/2015
A) SHAREHOLDERS' EQUITY		
I – Share capital	1,000,000	1,000,000
IV – Legal reserve	720	40,397
VII – Other reserves, reported separately	-	9,325
Extraordinary reserve		9,323
Differences from rounding to nearest euro		2
FTA valuation reserve IAS 19	-	-
IX – Net profit (loss) previous year	(190,772)	(49,002)
X - Net profit (loss) for the period	(1,011,618)	(190,772)
TOTAL SHAREHOLDERS' EQUITY (A)	(201,670)	809,948
B) PROVISIONS FOR RISKS AND CHARGES	467,312	19,125
C) EMPLOYEE TERMINATION BENEFITS	279,791	430,546
D) PAYABLES		
falling due within next year	3,997,729	4,283,251
falling due beyond subsequent year	9,457	18,915
TOTAL PAYABLES (D)	4,007,186	4,302,166
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,552,619**	**5,561,785**

INCOME STATEMENT

INCOME STATEMENT	31/12/2016	31/12/2015
1) Revenues from sales and services	4,207,546	2,602,444
5) Other revenues and income:		
- sundry	107,709	67,927
- operating grants		
- capital grants (instalment for period)		
Total value of production	4,315,255	2,670,371
B) Production cost		
6) Raw materials, ancillary products, consumables and goods	24,631	28,134
7) Services	2,690,041	803,710
8) Leaseholds	197,277	150,636
9) Personnel		
a) Wages and salaries	1,246,302	944,092
b) Social security contributions	347,181	250,902
c) Employee termination benefits	62,954	76,636
d) Post-employment benefits	53,142	-
e) Other costs	467,202	26,385
	2,176,781	1,298,015
a) Amortization	133,054	132,811
b) Depreciation	14,450	17,470
c) Other writedowns of non-current assets		
d) Writedowns of receivables in current assets and cash and equivalents		30,376
	147,504	180,657
12) Provisions for risks		
13) Other provisions		
14) Other operating expenses	2,785	18,460
Total production costs	5,239,019	2,479,612
Difference between value and cost of production (A-B)	(923,764)	190,759
C) Financial income and expense		
15) Income from equity investments:		
- subsidiaries		
- associates		
- other	2,416	1,671
17) Interest and other financial charges:		
- subsidiaries		
- associates		
- parent companies		
- other	2,228	5,904
17-bis) Exchange gains and losses		
Total financial income and expense	188	(4,233)
D) Value adjustments of financial assets		
Total adjustments of financial assets		
Profit (loss) before taxes (A-B±C±D±E)	(923,576)	186,526
22) Income tax expense for the period, current, deferred and prepaid		
a) current	88,042	140,967
b) deferred tax liabilities		
c) deferred tax assets	-	236,331
23) Net profit (loss) for the period	**(1,011,618)**	**(190,772)**

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, 2016

Dear Shareholders,

During the year the Board of Auditors monitored compliance with the law and the bylaws, the observance of the principles of sound administration, the suitability of the organizational structure of the company, compliance with the principles of sound and prudent management, the adequacy of the internal control system and the administrative-accounting system as well as the reliability of the latter in correctly representing operational events.

In performing its duties, the Board of Auditors attended all of the meetings of the Board of Directors and the Executive Committee - which 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.

In execution of the amendments to the bylaws introduced during 2016, the activities of the Board of Directors are supported by three committees composed of non-executive directors charged with conducting enquiries and providing advice: the Risk Committee, the Remuneration Committee and the Appointments Committee. Each Committee’s activities are governed by specific rules.

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 at the committees and the feedback from the units involved, whether control functions or organizational units, the Board of Auditors assesses the operation of by the overall system of internal controls, monitors the comprehensiveness, adequacy and functionality of the business continuity plan, supervises the adequacy and regulatory compliance of remuneration policies and practices, offering its own independent assessments.

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.

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. The updating and revision of the Compliance Model to take account of organizational changes resulting from the merger was monitored. These activities found nothing requiring mention in this report.

In 2016, the reverse merger of the Parent Company, Iccrea Holding SpA, into the subsidiary Iccrea Banca SpA, as resolved by the Shareholders' Meeting of July 12, 2016, was carried out. The merger took full effect as October 1, 2016. The Board of Auditors followed the various stages of the operation, conducting specific checks of the formalities to be performed, verifying the acquisition of all of the various authorizations required, and expressing the opinions within its sphere of responsibility.

As a merger between companies of which one owns the entire share capital of the other, the share capital of the new Parent Company, Iccrea Banca, is equal to the capital value of the merged Iccrea Holding, which amounts to €1,151,045,403.55. Holders of shares in Iccrea Holding SpA were assigned an equal number of shares in Iccrea Banca SpA.

As a result of the changes in the bylaws resulting from the merger, a number of shareholders elected to exercise the right of withdrawal with respect to a total of 818,553 ordinary shares with a par value of €42,278,262.45.

The liquidation price of the shares involved in the withdrawal, which had previously been published in accordance with the provisions of law, was determined by the Board of Directors on the basis of the appraisal conducted by a qualified company with the necessary experience, having heard the opinion of the Board of Auditors and the Audit Firm. In December, the shares involved in the withdrawal were redeemed for the withdrawing shareholders, of which 249,089 were assigned to other shareholders who exercised the corresponding pre-emption rights at the same liquidation price. The liquidation price for the 569,464 withdrawn and unassigned shares totaled €30.1 million, with available reserves of €343.6 million.

The merger was part of a reorganization launched in 2015 to centralize the main governance functions with the Parent Company in order to make management and coordination more effective and efficient. The unification of the two companies contributes significantly to the simplification of this process, shortening the line of governance and centralizing funding and liquidity management with the Parent Company, which is authorized to engage in banking. It should also be noted that the Group is now called upon to address the impact of the implementation of the reform of the mutual banking industry. The solutions implemented and still being implemented for a second-level group will now have to deal with the requirements of a parent company of a Mutual Banking Group governed by the principles and rules of the reform. Extensive analysis and discussion of the main organizational issues raised by the new mutual banking regime is now under way with the participation of the mutual banks.

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 findings of this activity indicate that organizational and administrative arrangements are substantially appropriate, albeit against a background of continuous and significant changes. For some years now, the units of the Parent Company has been called upon to make an extraordinary effort on an ongoing basis, well supported but calling for constant verification to identify timely adjustments or support measures to deploy.

More specifically, we refer to the commitments resulting from the progressive expansion of the role of the Parent Company and the acceleration imposed by the need to quickly align the company with the best European standards as a result of Iccrea’s status as a significant bank within the European Single Supervisory Mechanism. Finally, with the reform of mutual banking, these units are now confronted with the definition of a new model that appears to require very demanding organizational solutions, most of which remain to be tested. The Board of Auditors has on several occasions drawn the attention of the directors and senior management to the need to devote the utmost attention the risks underlying the above situation.

Last year - as well as the early part of the current year - saw the rapid deployment of the ECB’s supervisory action. The consequent response to the requests of the supervisory authorities has required a major effort on the part of the Group as a whole, notably the Parent Company's structures and the directors.

The experience so far has underscored the accelerator function of the supervisory authorities in the implementation of unavoidable changes, with the aim of aligning the Group with the best practices of the leading European banks, taking account of the size already achieved and the prospects that are to be pursued.

Last year and the first few months of 2017 have also seen the completion of the regulatory reorganization requested following an inspection aimed at verifying the adequacy of corporate governance arrangements. The many rules that have been amended or, in part, newly introduced are performing their functions effectively, although they are still in a testing phase that will need to be followed by a review to identify potential improvements suggested by the realities of actual practice.

Work to upgrade IT security is also at an advanced stage. These initiatives were urged and analytically described in 2016 in the findings of a specific inspection conducted in 2015 with an initial focus on “cyber risks”, then extended to the various IT security issues. Major organizational interventions have been carried out, with the identification of specialized roles, the revision and upgrading of numerous procedures, and the implementation of significant investments in 2016 and others planned for 2017. The ECB is periodically informed of the state of progress of the initiatives and organizational decisions taken.

The Board of Auditors is monitoring the progressive implementation of the planned interventions in compliance with the recommendations suggested by the findings of the inspection and the subsequent dialogue with the supervisory authorities.

More specifically, in 2016 the Group underwent inspections of the lending process. In addition, within the scope of audits to verify compliance with the Guidance on Non-Performing Loans published by the ECB for significant banks, the Group was involved in the activities of the Task Force on NPLs. The ECB's activities in this area are intended to assess the ability of the Iccrea Group to manage non-performing loans.

The results of the inspections were notified at the end of the first quarter of the this year. They were examined by the Board of Directors and the various measures to be implemented to achieve the required improvements and their timing were identified. A number of interventions were initiated during the inspection, the results of which did not have a quantitative impact, but they were focused on the various phases of the lending process, partly with a view to the creation of the new Mutual Banking Group.

The results of the thematic analysis of the management of NPLs were announced in April 2017. The Group's guidelines for managing impaired positions and remedying the problems encountered have already been notified to the ECB. Operational planning is being defined and will be submitted for preliminary assessment to the supervisory authorities.

The Board of Auditors monitors the implementation of the required interventions and the periodic updating of the ECB on the initiative taken and the choices made.

A inspection of the risks of the Financial Risk Management area is currently under way, examining the monitoring and management of liquidity risks, interest rate risk on the banking book and market risks.

With regard to liquidity, it should be noted that in a letter of February 17, 2017, the ECB took note of the Liquidity Policy and the funding agreements that link the various subsidiaries to the Parent Company within a centralized liquidity management model. Acknowledging its validity, the ECB granted the exception to the individual application, for Iccrea Banca, Iccrea BancaImpresa and Banca Sviluppo, of the liquidity coverage requirement as well as the liquidity reporting requirements (a so-called Liquidity Waiver).

In the exercise of its supervisory activity, in December 2016 the ECB announced the results of the SREP that takes account of the stress tests of 2016 and the information received in the course of supervisory activities. While confirming the requirement for a total SREP capital ratio of 9.50%, it also acknowledged for 2016 that the Iccrea Banking Group had implemented valid, effective and comprehensive strategies and processes to assess, maintain and allocate internal capital, and that it had adequate capital to cover the risks to which the Banking Group is or could be exposed. It was also recognized that the Group has implemented sound strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk over an appropriate range of time horizons.

However, these positive conclusions were accompanied by further assessments concerning profitability, which appear to be in line with expectations and consistent with the chosen business model, but susceptible to re-evaluation looking forward to account for the market developments and in the context of the new Mutual Banking Group. In addition, the ECB called attention to credit risk, which is handled with a level of coverage that is aligned with those of comparable banks but should also be managed with strategies to achieve greater sustainability in the coming years.

In addition, the results of the self-assessments of capital adequacy (ICAAP) and liquidity adequacy (ILAAP) for 2016 at the consolidated level were positive. They were conducted for a three-year period coinciding with the time horizon of the strategic plan, consistent with plan indications, based on the latest ECB recommendations and as required by the EBA guidelines.

In the SREP assessment, the ECB acknowledged, for both processes, the overall adequacy of the arrangements developed in relation to the size and risk profiles of the Group as well as the appropriate involvement of the governing bodies and the internal structure.

The findings of the ICAAP indicated the overall adequacy and appropriateness of capital for dealing with the various risks considered, with capital in excess of both the minimum regulatory requirements determined by the supervisory authorities following the SREP and the internal requirements defined at the management level in both of the scenarios adopted for the assessment.

As a result of the ILAAP process, the Iccrea Banking Group has assessed its liquidity profile to be "adequate" at both the short- and medium/long-term in both normal operating conditions and in adverse conditions.

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 Risk Committee.

The activities of the company's control functions appear sufficiently coordinated, both in the planning phase and in the operational phase, taking account of the strong interrelations existing between the various areas. Information is shared effectively while respecting the various prerogatives of the units involved.

The Risk Management and Compliance units were reorganized in 2016, with the redefinition of their scope and the specification of their roles, partly in response to the recommendations received from the supervisory authorities.

Risk Management, which reports to the Board of Directors, 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 now 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 important information, contributing significantly to the activities of the Risk Committee.

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. Advisory and analytical initiatives in support of operating units were also especially numerous and challenging. Other initiatives to strengthen the unit, some recommended by the Board of Auditors, were launched and partially implemented in 2016.

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.

In addition, with reference to the company control functions, the Board of Auditors reminds the operating units of the need for careful and constant verification of the appropriateness of the resources involved, considering the increasing size and complexity of the areas of intervention.

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 certain delays in the implementation of programs to address and eliminate problems, especially in a number of areas affected by the overlapping of new projects and reorganization measures. The Board of Auditors has called the attention of the Board of Directors and senior management to this issue, including through the Risk Committee.

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.

We affirm that during 2016 the Board of Auditors did not receive any complaints pursuant to Art. 2408 of the Italian Civil Code and that in the course of our supervisory activities and on the basis of the findings of the verifications performed, no omissions, censurable facts or significant irregularities emerged that would require mention in this report.

* * *

The Board of Auditors met with the Audit Firm, Ernst & Young 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.

The Audit Firm submitted to the Board of Auditors the report on the key issues arising during the statutory audit provided for in the third paragraph of Art. 19 of Legislative Decree 39/2010, which concludes without a finding of difficulties encountered in the course of the audit, of particularly important issues to be reported to the control body, or shortcomings in the internal control system in relation to the financial reporting process.

The Transparency Report referred to in the first paragraph of Article 18 of Legislative Decree 39/2010 is published on the website of Ernst & Young.

The Board of Auditors reviewed the Report on the Independence of the Statutory Auditor provided for under Art. 17, paragraph 9, letter a) of Legislative Decree 39/2010, which states that no circumstances arose that could compromise its independence and that there are no grounds for incompatibility under Article 10 of that decree.

The Board of Auditors reviewed the draft financial statements for the year ended December 31, 2016, 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.

Together with the figures as at December 31, 2016, the financial statements also contain those as at December 31, 2015, re-presented on a uniform basis to take account of the effects of the merger.

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.

Performance for the 2016 financial year appears to have been affected by events outside the ordinary course of business that reduced profits significantly. In particular, the mandatory contribution requested during the year to the National Resolution Fund amounted to a total of €55 million, of which €18.4 million as an ordinary contribution for 2016 and €36.7 million for two further extraordinary installments called up by the Bank of Italy at the end of the year. In order to safeguard the financial integrity of the company, the Board of Directors initiated an administrative dispute to ascertain the validity of the methods used to calculate the required payments in the context of a second-level banking group. In addition to these exceptional charges, the investment in the Fondo Atlante was also written down in the amount of €9.7 million due to a decline of approximately 30% in the fair value of the shares held by the Fund in Popolare di Vicenza and Veneto Banca.

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, 2016, issued on June 5, 2017, which contained an unqualified audit opinion. In particular, the financial statements and consolidated financial statements at December 31, 2016 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, 2016. The Audit Firm also found the respective reports on operations to be consistent with the separate and consolidated financial statements.

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 2016.

As regards the proposal for the allocation of profit submitted by the Board of Directors to the Shareholders' Meeting, considering the small impact of the proposed dividend on the level of capitalization, it finds no reason to oppose approval of the resolution.

Rome, June 6, 2017

THE BOARD OF AUDITORS

Report
of the audit firm

EY
Building a better working world

EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N. 39, DATED JANUARY 27, 2010

(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Iccrea Banca S.p.A., which comprise the balance sheet as at December 31, 2016, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and the relevant explanatory notes.

Directors' responsibility for the financial statements

The Directors of Iccrea Banca S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated January 27, 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY
Building a better
working world

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Iccrea Banca S.p.A. as at December 31, 2016, 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 article 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the financial statements

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 2), letter b) of Legislative Decree n. 58, dated February 24, 1998, with the financial statements. The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Iccrea Banca S.p.A. as at December 31, 2016.

Rome, June 5, 2017

EY S.p.A.
Signed by: Wassim Abou Said, partner

This report has been translated into the English language solely for the convenience of international readers.