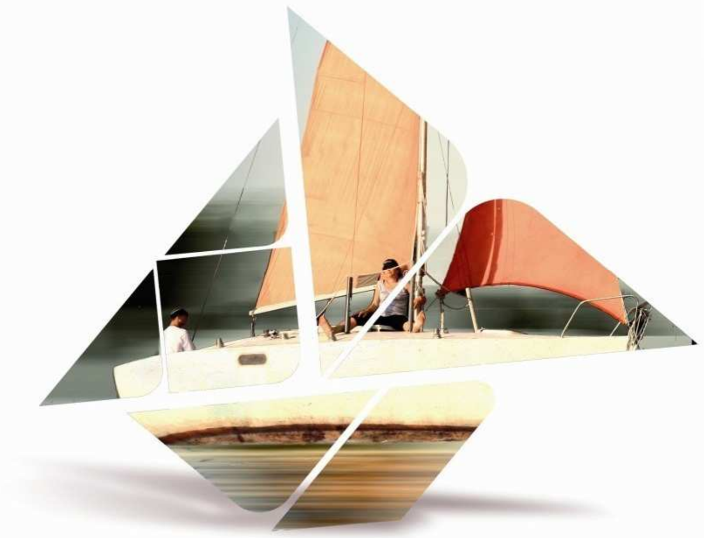
The right direction.

Interim Financial Report



June 30, 2016

Iccrea Banca

Interim Financial Report at June 30, 2016 Iccrea Banca S.p.A.

Iccrea Banca S.p.A.
Registered office: Via Lucrezia Romana 41/47 - 00178 Rome
Company Register and Tax ID no. 04774801007 - R.E.A. of Rome no. 801787
Share capital: €216,913,200 fully paid up
Member of the Iccrea Banking Group
Entered in the register of banking groups at no. 20016
Subject to the management and control of Iccrea Holding S.p.A.

Interim report on operations
at June 30, 2016

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Interim report on operations

About us

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

Iccrea Holding, the parent company of the Iccrea Banking Group, holds 100% of Iccrea Banca.

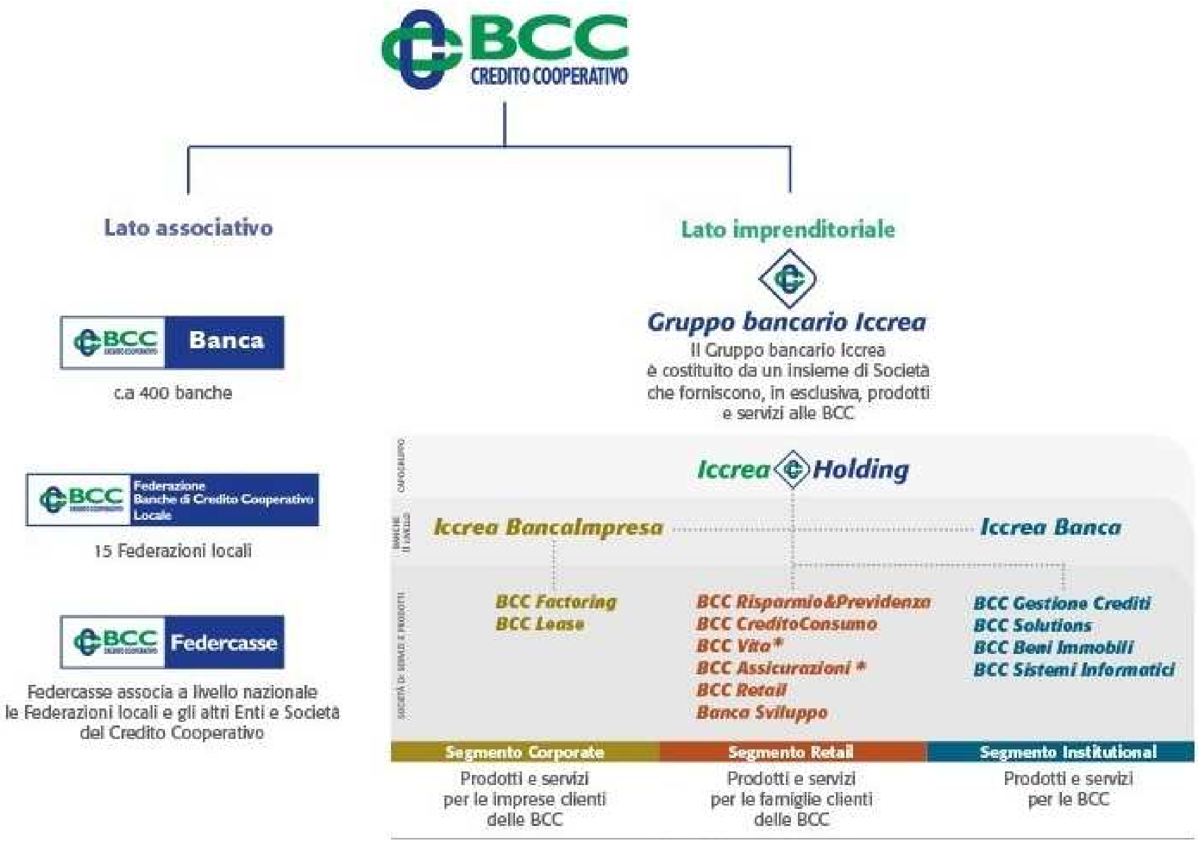
Iccrea Banca is a solid organization, providing services in the areas of finance, electronic money and payment systems, while also providing credit services to support the needs of the mutual banking system.

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

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

The Iccrea Banking Group

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



1. MAIN RESULTS OF THE BANK

Reclassified balance sheet (thousands of euros)	Assets	Jun-16	Dec-15	% change
Financial assets held for trading	20. Financial assets held for trading	498,552	402,780	23.8%
Financial assets designated as at fair value through profit or loss	30. Financial assets designated as at fair value through profit or loss	14,877	337,911	-95.6%
Financial assets available for sale	40. Financial assets available for sale	5,589,079	6,720,078	-16.8%
Financial assets held to maturity	50. Financial assets held to maturity	1,566,247	1,779,509	-12.0%
Due from banks	60. Due from banks	34,725,317	31,939,294	8.7%
Loans to customers	70. Loans to customers	4,055,662	4,077,715	-0.5%
Value adjustments of financial assets	90 Value adjustments of macro-hedged financial assets	1,263	932	35.6%
Equity investments	100. Equity investments	264,611	263,610	0.4%
	110. Property and equipment	7,128	7,794	-8.6%
	120. Intangible assets	7,348	8,732	-15.8%
Tax assets	130. Tax assets	3,364	6,273	-46.4%
Other assets		374,881	244,714	53.2%
	10. Cash and cash equivalents	108,722	91,044	19.4%
	80. Hedging derivatives	11,657	10,181	14.5%
	150. Other assets	254,502	143,489	77.4%
	Total assets	**47,108,328**	**45,789,341**	**2.9%**

Reclassified balance sheet (thousands of euros)	Liabilities and shareholders' equity	Jun-16	Dec-15	% change
Due to banks	10. Due to banks	12,854,979	13,670,457	-6.0%
Due to customers	20. Due to customers	28,257,675	26,029,648	8.6%
Securities issued	30. Securities issued	4,492,361	4,368,998	2.8%
Financial liabilities held for trading	40. Financial liabilities held for trading	489,594	475,615	2.9%
Financial liabilities designated as at fair value through profit or loss	50. Financial liabilities designated as at fair value through profit or loss	116,783	437,636	-73.3%
Other liabilities		341,952	278,194	22.9%
	80. Tax liabilities	11,469	17,988	-36.2%
	60. Hedging derivatives	107,389	88,035	22.0%
	100. Other liabilities	223,093	172,171	29.6%
Provisions		20,131	19,121	5.3%
	110. Employee termination benefits	13,281	12,769	4.0%
	120. Provisions for risks and charges	6,850	6,352	7.8%
Reserves		268,277	283,513	-5.4%
	130. Valuation reserves	73,852	89,088	-17.1%
	160. Reserves	194,425	194,425	0.0%
Share capital	180. Share capital	216,913	216,913	0.0%
Net profit/(loss) for the period	220. Net profit/(loss) for the period (+/-)	49,664	9,245	437.2%
	Total liabilities and shareholders' equity	**47,108,328**	**45,789,341**	**2.9%**

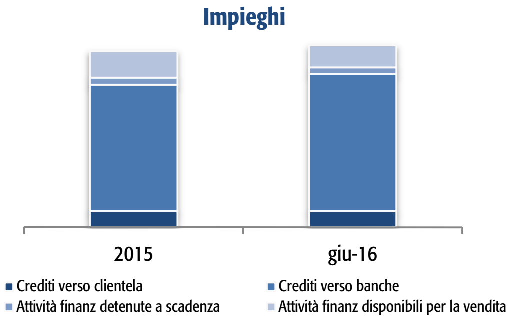
Reclassified income statement (thousands of euros)				
	Jun-16	Jun-15	% change	Items pursuant to format in Bank of Italy Circular 262 of 22/12/2005
Net interest income	**30,590**	**47,105**	**-35.1%**	**10-20**
Net income (loss) on financial transactions	60,220	36,261	66.1%	80-90-100-110
Dividends	300	209	43.7%	70
Net fee and commission income	**59,928**	**64,607**	**-7.2%**	**40-50**
Other operating expenses/income	11,006	9,932	10.8%	190
Total revenues	**162,044**	**158,114**	**2.5%**	
Personnel expenses	-26,454	-30,729	-13.9%	150a
Other administrative expenses	-69,839	-60,049	16.3%	150b
Net adjustments of property and equipment and intangible assets	-4,129	-4,277	-3.5%	170-180
Total operating expenses	**-100,423**	**-95,055**	**5.6%**	
Gross operating profit	**61,621**	**63,059**	**-2.3%**	
Net provisions for risks and charges	-526	-150	249.6%	160
Net losses for impairment of loans and other financial transactions	1,981	-1,762	-212.5%	130 a)
Total provisions and adjustments	**1,455**	**-1,912**	**-176.1%**	
Net operating profit	**63,076**	**61,147**	**3.2%**	
Profit/(loss) before tax	**63,076**	**61,147**	**3.2%**	
Income tax expense from continuing operations	-13,412	-21,237	-36.8%	260
Profit (loss) after tax from non-current assets held for sale	49,664	39,910	24.4%	280
Profit/(loss) after tax from disposal groups held for sale	0	0		280
Net profit/(loss) for the period	**49,664**	**39,910**	**24.4%**	

Performance indicators

Lending

In the first half of 2016, of total loans to customers, loans to banks, financial assets held to maturity and financial assets available for sale, loans to customers accounted for 8.8% of the total, loans to banks 75.6%, financial assets held to maturity 3.4% and financial assets available for sale 12.2%.

Impieghi

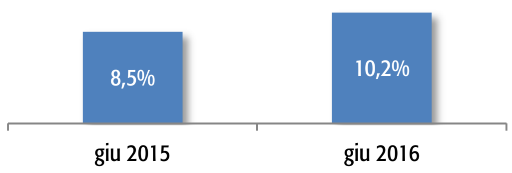


Return on equity (ROE)

Return on equity for the first half of 2016 came to 10.2%, up from 8.5% for the first half of 2015, due essentially to the increase in profit for the period.

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

ROE - Return on equity

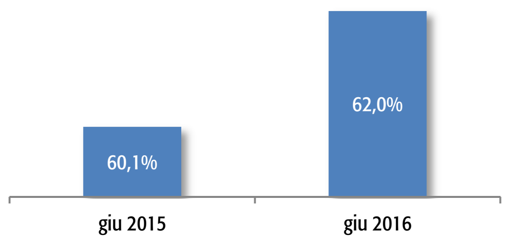


Cost-to-income ratio

The cost-to-income ratio for the first half of 2016 came to 62.0%, an increase on the ratio for the first half of 2015 due to an increase in costs associated with contributions paid to the Resolution Fund.

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

Cost-to-income

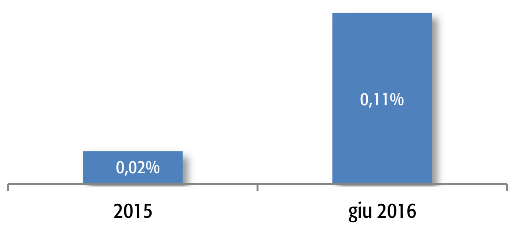


Return on Assets (ROA)

Return on assets for the first half of 2016 came to 0.11%, an increase on the end of 2015 owing to the increase in assets and net profit.

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

ROA - Return on assets

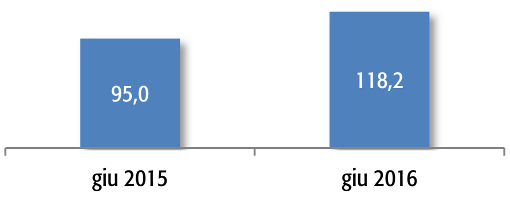


Earnings per share (EPS)

Earnings per share for the first half of 2016 came to €118.2, compared with €95.0 for the first half of 2015, and reflects the increase in net profit.

EPS is calculated as net profit divided by the number of shares that make up share capital.

EPS - Earnings per share

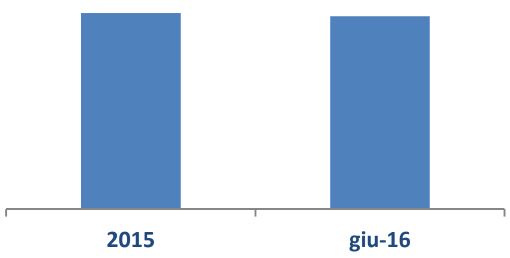


Net bad debts as a proportion of total loans to customers

The ratio of net bad debts to total loans to customers at June 30, 2016 came to 0.5%, in line with 2015.

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

Net bad debts/Loans to customers



2. OPERATING CONDITIONS

The macroeconomic environment and the international banking system

The global economy continues to show weakness: the projections for world trade growth made by the main international organizations have been revised downwards once again. The risks have heightened following the referendum in which the United Kingdom voted in favor of leaving the European Union; economic policy makers have given assurances that they are ready to take action to counter tensions and support growth.

The results of the Brexit referendum held on June 23, in which the majority voted to leave the EU, will have a profound effect on relations between these two areas. The Brexit result increased the volatility of international financial markets and, although its consequences are difficult to judge, it has heightened the risks for global growth, the outlook for which is already suffering from weakness in the emerging economies. In the UK, following the referendum, the Governor of the Bank of England considers the economic outlook to have worsened due to the rise in uncertainty and less favorable financial developments.

In the first quarter of 2016 economic activity in the United States slowed to an annualized growth rate of 1.1%, owing to a deceleration in consumption and a contraction in business investment. The data available indicate that growth accelerated in the second quarter in the United States: the Purchasing Managers' Index signals an expansion in the manufacturing sector after a protracted period of stagnation; consumption rose strongly over the spring months and employment accelerated in June. In Japan the PMI points to progressive weakening in manufacturing, which has been affected by the earthquake in April and the decline in orders from abroad; household spending has also fallen.

The stimulus measures adopted by China's government and central bank have countered the slowdown in economic activity. In the second quarter of 2016, retail sales continued to rise, while manufacturing activity and private investment decelerated. In India, following a first quarter with high growth (8.0%), economic activity slowed slightly. During the winter months, the recession persisted in Brazil (-5.4%), but eased up in Russia (-1.2%) thanks in part to increased oil production.

In the weeks following the June 23 referendum, there has been increased cooperation between the main central banks in managing the liquidity risk posed to banks by the volatility of the financial markets. At the start of July, given the deterioration in the economic outlook for the UK, the Bank of England cut the countercyclical capital buffer requirement; at its July 14 meeting it decided to leave monetary policy conditions unchanged, but envisages a loosening in August. In view of the less favorable employment data for May in the United States and the growing uncertainty in international markets, at its June 14-15 meeting the Federal Reserve decided to keep its monetary policy stance unchanged. Following the referendum in the UK the expected interest rates implied by derivative instruments fell sharply; in mid-July they indicated expectations that the official rates will remain unchanged in the United States until the end of the year and a total reduction of around 25 basis points in the United Kingdom by the end of the summer. The monetary policy stances of the main emerging economies have remained largely accommodative: China's central bank continued to provide additional liquidity to support credit supply; in India and Russia the central banks left rates unchanged.

The euro area

The cyclical expansion continued in the euro area in the second quarter, albeit at a moderate pace. Consumer price inflation returned to barely positive values in June. The ECB's existing monetary policy measures should stimulate growth and prices: a further contribution may come from the impact on the supply of credit from the new refinancing operations conducted in June.

In the spring months, economic activity in the euro area appears to have increased, although at a slower pace than in the previous quarter. Signs of continued growth are also found in the Bank of Italy's €-coin indicator, which estimates the underlying trend of GDP in the euro area: the indicator picked up in June, rising to 0.29. The Purchasing Managers'

Indices confirm that the economy is continuing to expand.

In the short term the risk outlook is unfavorable because of the protracted weakness of demand from the emerging economies, persistent geopolitical tensions and the uncertainty in connection with the outcome of the Brexit referendum.

The provisional data available indicate that consumer price inflation recorded a twelve-month rate of 0.1% in June after two months in negative territory. Core inflation remained slack at 0.9%, reflecting the still ample margins of spare production capacity. In May, the share of elementary items in the general index with negative price changes increased slightly to 26% from 24% in April, although this was still 10 percentage points below the peak recorded in January 2015; among the core components, the share rose for the second consecutive month, from 18 to 23%, 7 percentage points below its highest point, which was also recorded in January 2015.

At its meeting on June 2, the Governing Council of the ECB confirmed its intention to maintain official rates at current levels or lower for an extended period of time, and well past the horizon of its net asset purchases (intended to run at least until the end of March 2017). It also reiterated that, if warranted to achieve its objective, the ECB would act by using all the instruments available within its mandate. Following the outcome of the UK referendum, the ECB announced it would monitor the financial markets carefully and maintain close contacts with other central banks, while standing ready to provide additional liquidity, if necessary, in euros and foreign currencies. The ECB would continue to fulfil its responsibilities to ensure price stability and financial stability in the euro area.

The Eurosystem has continued to purchase securities on a regular basis. Since June 8, these have also included euro-denominated corporate bonds under the Corporate Sector Purchase Programme (CSPP). At July 8 purchases of public securities amounted to €895 billion, those of covered bank bonds to €184 billion, of asset-backed securities to €20 billion and of corporate bonds to €8.5 billion. At the end of June the Eurosystem had purchased Italian public securities for a total of about €144 billion, of which €132 billion bought by the Bank of Italy, with an average residual maturity of 9.3 years. On June 29, the first of the four new targeted longer-term refinancing operations (TLTRO-II) was carried out; 514 euro-area banks took part, obtaining funds of just under €400 billion (about €32 billion net of the voluntary repayments of outstanding loans obtained under TLTRO-I); the Bank of Italy's counterparties were assigned just under €139 billion (about €29 billion net). These measures will serve to stimulate the supply of credit and sustain economic activity and price developments through multiple channels.

Macroeconomic conditions in Italy

Economic activity in Italy accelerated slightly at the beginning of 2016, driven by household spending and, to a lesser extent, by investment; as in the other main euro-area countries, growth was held back instead by foreign trade. GDP appears to have continued to expand in the second quarter, but at a more moderate pace.

In the first quarter of 2016 GDP grew by 0.3% compared with the fourth quarter of 2015, when it had increased by 0.2%; after gaining for the fifth consecutive quarter, output is still 8.5 percentage points below the cyclical peak reached at the beginning of 2008.

According to the information available on the indices of business and household confidence, foreign trade and consumption indicators, goods traffic and electricity consumption, GDP growth slowed slightly in the spring. The boost from construction and services is likely to have been accompanied by a small decline in manufacturing. Signs of moderation of the recovery also come from the Bank of Italy's Ita-coin indicator, which provides real-time estimates of the underlying trend in GDP: the indicator fell in June, partly as a consequence of the large losses recorded by the stock market following the referendum in the United Kingdom

In June, inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), was negative for the fifth consecutive month (-0.2%). The prices of energy products continue to decline on an annual basis and core inflation remains extremely low at 0.5%.

In the second quarter of 2016 manufacturing activity is likely to have diminished slightly while the recovery firmed up in services and there were signs of a turnaround in construction. Business confidence indicators, measured before the Brexit referendum, remained high on the whole; the outlook for investment expenditure improved. Weak and hesitant foreign demand and the existing geopolitical risks continue, however, to put a brake on productive activity. In the second quarter the business confidence indicators, measured before the Brexit referendum, remained high, although the trends were uneven in the main economic sectors: stationary in manufacturing but rising in aggregate market services and, especially, in construction. Purchasing Managers' Indices point to a continuation of the expansion in economic activity. According to the quarterly survey of firms conducted in June by the Bank of Italy and *Il Sole 24 Ore*, the share of firms expecting foreign demand for their products to increase diminished, owing in part to the ongoing geopolitical tensions. In the survey findings, the uncertainty stemming from economic and political factors remains the main drag on economic activity, while the stimulus from the decline of oil prices disappeared.

The recovery in household consumption since the summer of 2013, driven by both the goods and services components, reflects the substantial increase in disposable income and the improvement in the labor market. The latest data are consistent with a further expansion in spending in the second quarter; the index of household confidence, despite a decline in recent months, remains high.

In the first quarter of 2016 Italian household debt fell to 62.0% of disposable income, remaining far below the euro-area average (about 95% at the end of December). During the same period there was a further reduction in interest rates on new mortgage loans, continuing the trend that began in early 2012; this trend is confirmed by the latest data.

Italian exports, especially those to the emerging economies, are being affected by the weakness of world trade. Business surveys confirm the uncertain outlook for sales abroad. As Italy's commercial and financial relations with the British economy are less intense than those with other countries, the direct impact of Brexit on Italy should be more limited.

Exports of goods and services decreased in the first quarter of 2016 compared with the previous quarter (1.5% by volume). The fall, which was more pronounced for goods (1.8%), mainly involved non-EU markets. Sales to the main Asian economies (China and Japan), OPEC countries, and Russia fared particularly badly, while those to the United States and Turkey increased. The contraction involved all sectors except transport equipment, which experienced a continuation of the favorable trend under way since last year. Imports of goods and services also shrank, albeit less markedly, falling by 0.9% in volume terms. Goods purchases dropped for commodities, electronic equipment, textiles and clothing, but increased for refined petroleum products, transport equipment and mechanical machinery; imports in the latter sector were presumably sustained by the pick-up in gross fixed investment. The most recent data show that total exports staged a modest increase in April; in May, however, sales to non-EU markets declined, while nevertheless remaining above the average for the first quarter. The uncertain outlook for foreign demand is also confirmed by the findings of cyclical business surveys: the PMI measuring the foreign orders of manufacturing firms improved slightly, while Istat's comparable qualitative indicator slipped but remained compatible with an expansion of sales. The prospects for foreign trade are hampered by the potential repercussions of the Brexit referendum, which are expected to be less severe for Italy than for other countries.

The number of persons employed continued to rise in the first quarter of 2016. The unemployment rate remained stable as a result of the increase in the participation rate due in part to the cyclical expansion. Labor costs fell compared with the same period of 2015 owing to the effect of social contribution relief and the marked deceleration in contractual earnings.

The rise in employment reported in the first quarter is in part the result of the large number of open-ended employment hires by businesses in December 2015, in order to take advantage of the greater social contribution relief available until the end of last year. According to data released by INPS, in the first four months of this year, the balance between new hires and terminations remained positive in the non-farm private sector, although less so than in the corresponding period of 2015; net hiring was in any case slightly greater than in the same period of 2014. New hires exceeded terminations in both fixed-term and open-ended positions. The share of open-ended contracts in total net hiring was lower in the first few months of this year compared with 2015 and, if only marginally, with 2014 as well. The unemployment rate remained stable at 11.6% in the first quarter as a result of the increase in labor force participation, which reflects the cyclical recovery, in addition to a long-term trend induced largely by pension reforms. The unemployment rate for those aged 15 to 24 years again fell, by 0.8 percentage points. According to the preliminary data for April-May, unemployment remained essentially unchanged compared with the previous two months, while participation increased further.

(Source: Bank of Italy, Economic Bulletin, July 2016)

The Italian banking system

As of June 2016 loans to customers by banks operating in Italy amounted €1,825.9 billion, significantly more (nearly €157 billion) that total funding from customers (€1,669.3 billion).

At June 2016, the value of outstanding loans was virtually unchanged (a year-on-year decrease of -0.04% in loans to households and firms compared with June 2015, +0.3% on May and an improvement compared with the -0.5% posted in April 2016 and the -4.5% registered in November 2013, when the contraction in lending reached its low point, returning to its level in April 2012. The latest official date, for May 2016, show the total amount of outstanding loans to households increasing by +1.5% compared with the end of May 2015 (when the aggregate was already displaying signs of improvement), confirming the recovery in the market for mortgage loans, as also shown in the figures for outstanding loans. Total lending to the economy (which includes households, firms and government) was essentially unchanged (-0.3%). Since the end of 2007, before the start of the crisis, lending to the economy has gone from €1,673 billion to €1,825.9 billion, while loans to householders and firms have risen from €1,279 billion to €1,417.5 billion.

Interest rates on loans remain low in Italy. The average rate on new loans for home purchases is equal to 2.21%, a new all-time low. About two-thirds of new mortgage loans are fixed-rate transactions. The average rate on new loans to firms is equal to 1.85%, compared with the historic low of 1.78% registered the previous month (5.48% at the end of 2007). The average interest rate on all loans is equal to 3.02%, also a record low.

In Italy, deposits at the end of June 2016 were nearly €45 billion higher than a year earlier, while medium- and long-term funding (i.e. bonds) again contracted year-on-year (in June 2016, it was down 15.1%, with an absolute decrease of €62 billion year-on-year). Overall, funding at the end of June 2016 contracted by 1.1% compared with twelve months earlier.

At the end of June 2016, the average interest rate on total bank funding from customers (the sum of deposits, bonds and repurchase agreements in euros with households and non-financial corporations) in Italy was 1.07% (1.08% the previous month and 2.89% at the end of 2007). The rate on deposits (current accounts, savings deposits and certificates of deposit) was 0.46% (0.46% the previous month as well), while that on repurchase transactions was 1.09% (1.09% the previous month as well). The yield on bonds was 2.87%, compared with 2.90% in May.

The spread between the average rate on loans to households and non-financial corporations remains especially low in Italy. In June it had fallen to 195 basis points (from 200 basis points the previous month). Before the start of the financial crisis, the spread was more than 300 points (329 points at the end of 2007).

(Source: Rapporto mensile ABI, July 2106)

The mutual banks

Mutual bank lending to customers at March 2016 amounted to €134.2 billion; their share of the lending market came to 7.2%.

Including loans granted by second-level mutual banks, lending amounted to €149 billion. Lending to enterprises came to €84.1 billion, with a market share of 9.6%; including loans

granted by second-level banks, the total comes to €94.8 billion and a share of 10.8%.
Although the stock of gross loans to customers of the mutual banks was still contracting in March 2016 compared with twelve months earlier (-1%), signs of stabilization in lending have emerged: in the first quarter of the year, performing loans expanded slightly.
By borrower segment of lending to residents, lending to consumer households increased (+2%), although by less than the system average (+4.5%). Lending to non-profit institutions also expanded (+14.6%, compared with a contraction of 1.5% for the banking industry as a whole). Lending to producer households contracted (-1.5% compared with -1.9% for the system average).
The mutual banks' share of the markets in which they specialize remained very high: 17.9% of lending to producer households, 8.5% of lending to consumer households and 8.6% of lending to non-financial corporations. Their share of lending to the non-profit sector was also very high at 15.6%.
Total funding by mutual banks at the end of March 2016 amounted to €194.6 billion, a decrease of 2.9% year-on-year, while there was virtually no change for the banking industry as a whole (-0.2%). Funding from customers totaled €158.4 billion, a significant decrease on the previous year (-2.1%, compared with -0.4% for the entire banking industry).
Bond issued by the mutual banks contracted substantially (-20.5% compared with -13.6% for the banking system).
The most recent performance figures reveal a continuation at the end of December 2015 of the trend that had already emerged in the first nine months of the year in the contribution of credit intermediation to profits: after a progressive recovery in 2014, the net interest income of mutual banks declined (-5.6%, less than the -6.8% registered by the banking industry as a whole). The contribution of disposals/repurchases of loans and financial assets and liabilities to profits also decreased (-9.6% for the mutual banks, compared with an increase of 5.4% in the industry average). The weak growth in revenues from services (+0.1% compared with +26.9% for the banking industry) only slightly compensated for the developments reported above. As a consequence, the gross income of the mutual banks contracted significantly (-5.5%, compared with +7.4% for the banking industry). The operating expenses of the mutual banks amounted to €3.8 billion, an increase of +3.2% (+2.9% for the banking system as a whole), in part reflecting the contributions connected with the Bank Rescue decree. Personnel expenses of the mutual banks declined by 1.2%, in line with developments for the entire banking industry.
As at March 2016 there were 358 mutual banks in operation, equal to 55.7% of all banks operating in Italy, with 4,423 branches or 14.8% of the banking system total.
The mutual banks are present in 101 provinces and 2,686 municipalities.
Shareholders of mutual banks number 1,245,516, an increase of 2.2% year-on-year.
This performance was the result of an increase in 1.3% in the number of shareholders who are borrowers, who totaled 484,146, and an even larger rise (+2.7%) in the number of shareholders who are not borrowers, who numbered 761,370. The mutual banks employ 31,158 people, a decrease on the same period of the previous year. The total number of employees of the mutual banking system came to 36,500, including employees of system companies.
(Source: Circolare statistica trimestrale Federcasse, December 2015)

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

The interim financial statements of Iccrea Banca S.p.A. at June 30, 2016 have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as with related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission in accordance with the procedures established under Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, and the provisions of Circular no. 262 of the Bank of Italy of December 22, 2005, regarding the preparation of bank financial statements, as further amended on December 15, 2015 with the fourth update.

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

THE BALANCE SHEET

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

At June 30, 2016, total assets and liabilities stood at €47,108 million, compared with €45,789 million at December 31, 2015, an increase of 2.9%. On the asset side, growth was concentrated mainly in financial assets held for trading, up €96 million (+23.8%) and loans to banks, which rose by €2,786 million (+8.7%). On the liability side, the increase is attributable to amounts due to customers, up €2,228 million (+8.6%), with a decline in amounts due to banks, which contracted by €815 million (-6%).

BALANCE SHEET DATA (millions of euros)				
AGGREGATES	**Jun-16**	**Dec-15**	**Chg**	**% change**
Due from banks	34,725	31,939	2,786	8.7%
Loans to customers	4,056	4,078	-22	-0.5%
Financial assets held for trading	499	403	96	23.8%
Financial assets at fair value through profit or loss	15	338	-323	-95.6%
Financial assets available for sale	5,589	6,720	-1,131	-16.8%
Financial assets held to maturity	1,566	1,780	-213	-12.0%
Other assets	255	143	111	78.3%
Total interest-bearing assets	**46,704**	**45,401**	**1,303**	**2.9%**
Other non-interest-bearing assets	404	389	16	4.0%
TOTAL ASSETS	**47,108**	**45,789**	**1,319**	**2.9%**

BALANCE SHEET DATA (millions of euros)				
AGGREGATES	**Jun-16**	**Dec-15**	**Chg**	**% change**
Due to banks	12,855	13,670	-815	-6.0%
Due to customers	28,258	26,030	2,228	8.6%
Securities and financial liabilities	5,099	5,282	-184	-3.5%
Other liabilities	223	172	51	29.6%
Total interest-bearing liabilities	**46,434**	**45,155**	**1,280**	**2.8%**
Other non-interest-bearing liabilities	119	106	13	12.3%
Shareholders' equity and provisions	505	520	-14	-2.9%
Net profit for the period	50	9	40	455.6%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**47,108**	**45,789**	**1,319**	**2.9%**

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

Assets

Total interest-bearing assets increased on the end of December 2015. The aggregate amounts due from banks rose by €7,786 million (+8.7%). Mutual bank operations with Iccrea Banca are mainly in the form of financing backed by pool collateral (refinanceable securities). The total as at June 30, 2016, came to €22,476 million. The collateral securities assigned by the mutual banks totaled €24,152 million net of the haircut applied to the various types of securities.

As the manager of the Group's financial resources, the Bank handles the funding and lending for all of the companies of the Group. In particular, the aggregate "Due from banks – Debt securities" includes securities issued by Iccrea BancaImpresa in the total amount of €3,935 million.

Within the aggregate of amounts due from banks, amounts due from mutual banks increased by 9.0% (from €19,470 million at the end of December 2015 to €21,218 million at the end of June this year), while amounts due from other banks rose from €12,469 million at the end of 2015 to €13,507 million at the end of June 2016 (+8.3%).

Due from banks	Jun-16	Dec-15	Chg	% change
Mutual banks	21,218,476	19,470,219	1,748,257	9.0%
Other credit institutions	13,506,841	12,469,075	1,037,766	8.3%
Total	**34,725,317**	**31,939,294**	**2,786,023**	**8.7%**

BREAKDOWN OF AMOUNTS DUE FROM BANKS	Jun-16	Dec-15	Chg	% change
Claims on central banks	**282,126**	**149,669**	**132,457**	**88.5%**
Reserve requirement	282,126	149,669	132,457	88.5%
Due from banks	**34,443,191**	**31,789,625**	**2,653,566**	**8.3%**
Current accounts and demand deposits	417,045	548,482	-131,437	-24.0%
Fixed-term deposits	133,557	172,588	-39,031	-22.6%
Other	29,694,148	27,130,645	2,563,503	9.4%
Debt securities	4,198,441	3,937,909	260,532	6.6%
Total amounts due from banks	**34,725,317**	**31,939,294**	**2,786,023**	**8.7%**

Loans to non-bank customers fell slightly edging down by 1% from €4,078 million at the end of 2015 to €4,036 million at the end of June 2016. The decline is attributable mainly to "medium/long-term loans" amounting to €118 million, compared with €126 million at the end of 2015. Impaired assets decreased to zero.

BREAKDOWN OF LOANS TO CUSTOMERS	Jun-16	Dec-15	Chg	% change
Current accounts	246,055	153,148	92,907	60.7%
Medium/long-term loans	118,161	126,023	-7,862	-6.2%
Repurchase agreements	1,389,869	1,409,005	-19,136	-1.4%
Other transactions	2,281,810	2,369,921	-88,111	-3.7%
Debt securities		0	0	
Impaired assets		19,618	-19,618	-100.0%
Total loans to customers	**4,035,895**	**4,077,715**	**-41,820**	**-1.0%**

The portfolio of financial assets held for trading posted an increase of 23.8% on the end of the previous year (from €403 million to €499 million).

BREAKDOWN OF FINANCIAL ASSETS HELD FOR TRADING	Jun-16	Dec-15	Chg	% change
Debt securities	81,805	61,803	20,002	32.4%
Equity securities	2225	1,178	1,047	88.9%
Units in CIUs.	0	976	-976	-100.0%
Total on-balance-sheet assets	**84,030**	**63,957**	**20,073**	**31.4%**
Derivative instruments	414,522	338,823	75,699	22.3%
Total derivative instruments	**414,522**	**338,823**	**75,699**	**22.3%**
Total financial assets	**498,552**	**402,780**	**95,772**	**23.8%**

At the end of June 2016, the portfolio of financial assets available for sale amounted to €5,598 million, compared with the €6,720 million posted at December 31, 2015.

For further details, please see Part B, sections 2 to 4, of the notes to the financial statements.

Liabilities

Interest-bearing funding totaled €46,434 million, an increase of 2.8% from December 2015.

Interbank deposits came to €12,855 million, a decrease of 6% on the end of December 2015 (€13,670 million).

Due to banks	Jun-16	Dec-15	Chg	% change
Mutual banks	6,559,757	5,832,497	727,261	12.5%
Other credit institutions	6,295,222	7,837,960	-1,542,738	-19.7%
Total	**12,854,979**	**13,670,457**	**-815,478**	**-6.0%**

Within this aggregate, funding from mutual banks increased by 12.5% (from €5,832 million at the end of December 2015 to €6,560 million at the end of June this year), while amounts due to other credit institutions decreased by 19.7% (from €7,838 million to €6,295 million). Amounts due to central banks represent funds received from the ECB for advances secured by securities owned by both the Bank and the mutual banks.

BREAKDOWN OF AMOUNTS DUE TO BANKS	Jun-16	Dec-15	Chg	% change
Due to central banks	4,600,000	6,584,962	-1,984,962	-30.1%
Current accounts and demand deposits	4,422,519	4,129,095	293,424	7.1%
Fixed-term deposits	3,304,679	2,890,421	414,258	14.3%
Loans	525,147	62,550	462,597	739.6%
Other payables	2,634	3,427	-793	-23.1%
Total amounts due to banks	**12,854,979**	**13,670,457**	**-815,478**	**-6%**

Funding from non-bank customers rose compared with December 2015, going from €26,030 million to €28,258 million at the end of June 2016.

BREAKDOWN OF AMOUNTS DUE TO CUSTOMERS	Jun-16	Dec-15	Chg	% change
Current accounts and demand deposits	471,628	466,979	4,649	1.0%
Fixed-term deposits	2,212	11,359	-9,147	-80.5%
Loans	27,251,584	25,085,079	2,166,505	8.6%

Other payables	532,251	466,232	66,019	14.2%
Total amounts due to customers	**28,257,675**	**26,029,648**	**2,228,027**	**8.6%**

Securities issued

Securities funding increased during the period (from €4,369 million at December 31, 2015 to €4,492 million at June 30, 2016). This funding includes bonds issued by the Bank that are hedged for interest rate risk by derivatives, the fair value of which is adjusted for changes in the hedged risk as at the balance sheet date, as well as unhedged bonds, which are recognized at amortized cost. The fair value of securities issued is determined by discounting the future cash flows, using the swap yield curve at the reporting date.

Shareholders' equity

At June 30, 2016, the strength of the Bank's financials can be seen, in particular, in the level of equity, which totals €485.2 million not including net profit for the year.

Share capital, which is made up of 420,000 ordinary shares with a par value of €516.46 each, was unchanged at €216.9 million. Reserves were unchanged at €194.4 million.

Valuation reserves were a positive €73.9 million, a decrease of €15.2 million on the end of 2015.

THE INCOME STATEMENT

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

Reclassified income statement (thousands of euros)

	Jun-16	Jun-15	% change	Items pursuant to format in Bank of Italy Circular 262 of 22/12/2005
Net interest income	**30,590**	**47,105**	**-35.1%**	**10-20**
Gains/losses on financial transactions	60,220	36,261	66.1%	80-90-100-110
Dividends	300	209	43.7%	70
Net fee and commission income	**59,928**	**64,607**	**-7.2%**	**40-50**
Other operating expenses/income	11,006	9,932	10.8%	190
Total revenues	**162,044**	**158,114**	**2.5%**	
Personnel expenses	-26,454	-30,729	-13.9%	150a
Other administrative expenses	-69,839	-60,049	16.3%	150b
Net adjustments of property and equipment and intangible assets	-4,129	-4,277	-3.5%	170-180
Total operating expenses	**-100,423**	**-95,055**	**5.6%**	
Gross operating profit	**61,621**	**63,059**	**-2.3%**	
Net provisions for risks and charges	-526	-150	249.6%	160
Net losses/recoveries on impairment of loans and other financial transactions	1,981	-1,762	-212.5%	130 a)
Total provisions and adjustments	**1,455**	**-1,912**	**-176.1%**	
Net operating profit	**63,076**	**61,147**	**3.2%**	
Profit before tax	**63,076**	**61,147**	**3.2%**	
Income tax expense from continuing operations	-13,412	-21,237	-36.8%	260
Profit (loss) after tax from non-current assets held for sale	49,664	39,910	24.4%	280
Profit (loss) after tax from disposal groups held for sale	0	0		280
Net profit (loss) for the period	**49,664**	**39,910**	**24.4%**	

NET INTEREST INCOME

Net interest income at June 30, 2016 amounted to €30.6 million, a decrease of 35.1% on June 30, 2015 (47.1 million). The contraction is attributable to the reduction in the average nominal value of the tactical book (-€1.5 billion), which gave rise to a decline in net interest of -10.2 million. This was not offset by the rise in the volume of assets in the investment book and the reduction in funding rates. The decline in net interest income compared with the year-earlier period also reflected a contraction in income from intercompany proprietary finance and trading operations (-€3.2 million) as a result of a decline in interests rates from 1.87% to 1.52%. Net interest income as a proportion of total revenues decreased from 29.8% to 18.9%.

FEES AND COMMISSIONS

In the first half of 2016, net fees and commissions from services amounted to €59.9 million, a decrease of €4.7 million from June 2015 (-7.2%).

GAINS/LOSSES ON FINANCIAL TRANSACTIONS

In the first half of 2016, gains on financial transactions, which includes the net result on trading activities (€7.4 million), the net result on hedging activities (€0.3 million), the net result on disposal and repurchase (€50.9 million), and the net result on financial assets/liabilities at fair value through profit or loss (€1.6 million), came to €60.2 million, an increase of €24 million (+66.1%) compared with June 2015 (€36.3 million). The increase is due mainly to the gain on the disposal and repurchase of financial assets held for sale. In particular, in June the disposal of

Visa Europe to Visa Inc. closed. As a shareholder and "Principal Member" of Visa Europe, Iccrea Banca sold its interest with a gain on disposal of €32.1 million paid in part in cash and in part in preference shares.

TOTAL REVENUES

In the first half of 2016, the Bank posted total revenues of €162 million, up about €3.9 million or 2.5% on the first half of 2015.

OPERATING EXPENSES

Operating expenses incurred in the first half of 2016 totaled €100.4 million (€95.1 million in the year-earlier period) and include personnel expenses, other administrative expenses, indirect taxes and duties, and net adjustments of property and equipment and intangible assets.

Compared with the previous year, total administrative expenses increased by about €5.5 million, reflecting an increase in other administrative expenses of €9.8 million associated with the contributions paid to the Resolution Fund created with the BRRD.

PERSONNEL EXPENSES

Personnel expenses for the Bank came to €26.5 million in the first half of 2016, compared with €30.8 million in the year-earlier period, a decrease of €4.3 million (-13.9%), reflecting the secondment of personnel to the Parent Company.

OTHER ADMINISTRATIVE EXPENSES

At the end of June 2016 other administrative expenses totaled €69.8 million, up 16.3% over the previous period (€60 million). For further details, see the notes to the financial statements (Section 9 – Administrative expenses – Item 150, table 9.5).

NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Adjustments totaled about €4.1 million at June 30, 2016, of which €1.5 million for depreciation and €2.7 million for amortization.

GROSS OPERATING PROFIT

As a result of the foregoing, the gross profit from ordinary operations came to €61.6 million, down 2.3% compared with June 2015 (€63.1 million).

NET PROFIT FOR THE PERIOD

Net profit, consisting of profit from continuing and discontinued operations, net of the change in direct taxes for the period, amounted to €49.7 million, compared with €39.9 million in the first half of 2015, an increase of 24.4%.

The cost-to-income ratio went from 60.1 in the first half of 2015 to 62.0% in the same period this year.

4. BANK OPERATIONS

The following section contains information on the primary activities carried out by the various company units during the first half of 2016.

FINANCE

In the first half of 2016, Iccrea Banca, in its role as the mutual banking system's finance hub, provided support to the mutual banks and to the Group companies through a series of initiatives in domestic and foreign monetary and financial markets, as well as in collateralized markets.

In a period of great volatility, which was capped off by Great Britain's referendum on leaving the European Union, the intensification of collateralized funding at negative interest rates and dynamic management of our own portfolio enabled us to achieve adequate profit margins, which were essentially in line with our budget forecasts.

In the first half of 2016, with regard to management of the system's liquidity, we continued supporting the mutual banks in their securitized funding activities through operations with both the ECB and the market.

The ECB launched a new program of four targeted longer-term refinancing operations (TLTRO II) with a final maturity of March 2021. As with the first program, Iccrea Banca, acting as the lead institution, proposed creating a new TLTRO Group in order to enable all mutual banks to participate in the new operations. In all, 162 banks joined the group, and the ECB granted an upper participation limit of €14,464 billion.

The first operation was settled on June 29, 2016, and Iccrea Banca took advantage of the option to pay off the entire €6.5 billion in existing financing related to TLTRO I prior to the 2018 maturity and submitted a new participation of €4.6 billion based on requests by group members totaling €4.3 billion.

On the whole, collateralized financing issued by Iccrea Banca to the mutual banks through the collateral pool mechanism came to €22.4 billion at June 30, 2016, compared with €20 billion at June 30, 2015.

Within the scope of structured financing activities to support the mutual banks and the Iccrea Banking Group, work has begun on the structuring of a multi-originator operation for the without-recourse assignment of non-performing mortgage and unsecured loans (NPLs) and a new multi-originator self-securitization of home loans. This process is expected to be completed in the second half of the year.

With regard to activities in support of the Group companies, work has also begun on the structuring, in collaboration with the EIB and the EIF, of a new securitization of lease receivables, which is expected to be completed within the first ten days of August.

As concerns the offering of investment instruments, we have maintained the extensive offering of term deposits and bonds for both the shareholders of the banks and the bank's customers.

Three senior bond issues totaling €275 million were also placed on the mutual bank network.

In line with market trends, we have also seen a decrease in the volume of government and corporate bonds traded, with direct trading reaching a total of about €67.33 billion, confirming Iccrea's position among the leading intermediaries on this market.

Iccrea Banca continues to play a significant role in the wholesale trading of Italian government securities and in market making on Italy's screen-based bond market, MOT, for the two government bond issues (BTP Italia) for which the Bank was the co-lead manager, transacting about 11% of the total trades conducted and confirming the Bank's position among the nation's leading players.

Activity on the primary bond market posted total volumes of €1.6 billion.

Once again, we made a significant contribution in the placement of the ninth issue of Italian government bonds last April. The fees paid to the mutual banks for their placement efforts during the first half of the year totaled over €4.2 million.

Although declining compared with the same period of the previous year, total volumes of order collection on regulated markets and MTFs exceeded €21 billion, further confirming the Bank's position among the top of the Assosim rankings of intermediation volumes.

We continued to be involved on the committees and working groups of the Unico Banking Group (an association of European cooperative banks) and of various industry associations.

PROPRIETARY FINANCE AND TRADING

The Proprietary Finance & Trading unit is organized into four sections, each committed to a specific area, engaged in the following activities:

- market making for multilateral trading facilities including Hi-MTF, EuroTLX and MOT;
- the trading of government securities on regulated markets, MTFs and off market;
- activities involved in determining the funding needs of the Bank and of the other members of the Iccrea Banking Group and in making investment recommendations for our own portfolio and for the management of liquidity, interest-rate and exchange risk;
- management of the Bank's own portfolio, including through the use of unlisted derivative instruments;
- funding activities through domestic and international bond issues.

During the first half of the year, about 450 eurobonds and 87 Italian government securities were traded on the Hi-MTF market, compared with 430 and 73, respectively, in the same period of 2015. By way of consolidating our role as market maker, some 400 bonds and 87 Italian government securities were listed on the EuroTLX market, compared with 200 and 73, respectively, in the same period of 2015.
As part of market making for corporate securities, about €1.1 billion (€235 million on the Hi-MTF market and €815 million on the EuroTLX market) were traded, an increase of 59% over the same period of 2015, when €250 million were traded on the Hi-MTF market and €420 million on the EuroTLX market.
Market-making efforts for Italian government securities on these three markets (Hi-MTF, EuroTLX and MOT) generated volumes of around €3.5 billion (down 24% from the €4.6 billion of the first half of 2015), some €555 million of which was traded within the scope of market making for the MOT and the two Italian government bonds for which the Bank was the co-lead manager and which accounted for around 11% of total trades, thereby confirming the Bank's position among the leaders in Italy.
On February 8, 2016, based on the quality of our work thus far, EuroTLX asked the Bank to extend market-making efforts to bonds issued in the currencies of emerging countries, such as Australian dollars, Brazilian real, Canadian dollars, Mexican pesos, New Zealand dollars, Norwegian kroner, Russian rubles, Turkish lira, and South African rand. The number of securities traded increased in the ensuing months. After beginning with 20 securities, by June the number had increased to around 120. By June 30, Iccrea Banca had handled a total of around €195 million as the market maker for these securities.
In transactions involving liquid and illiquid securities, about 1,000 securities were traded, providing the mutual banks with timely, efficient order execution. Around 250 of these securities were issued by the mutual banks and are traded by the Bank so that they may then be repurchased. In the first half of 2016, there was a marked decline in trading volumes in the OTC segment, slipping from some €7.3 billion to just €620 million. This decrease was due entirely to the fact that most of the volume in the first half of 2015 was related to trading in Greek, German, and French government securities for a number of mutual banks, and this was not repeated on 2016.
We also placed around 65 eurobonds, transmitting orders to the lead managers totaling about €250 million.
Liquidity was maintained for over 30 of our bonds listed on the Hi-MTF market, thereby ensuring that our retail customers were always able to liquidate their positions in today's highly volatile markets. Trading volumes in our bonds on the Hi-MTF market totaled €147 million, compared with €128 million in the same period of 2015, an increase of 25%. Finally, a total of €65.4 million in securities we issued were repurchased.

Income generated during the first half came to about €3.4 million, which is in line with our budget forecasts for the period.

The trading of government securities by the MTS unit was directly affected by the monetary policy moves of the ECB. The program of quantitative easing, which is to end in March 2017, produced a further contraction in yields on euro-area government securities and pushed rates of up to three years into negative territory.
In 2016, as a result of this program, the ECB is expected to buy €108 billion in Italian public debt securities, bringing the total to €215.7 billion or 11.42% of Italy's total public debt.
The consequent extraordinary decline in yields on government securities has brought significant rigidity to the mutual banks' portfolios, as the return on investments in government securities is now much less attractive. The negative yields on short-term maturities has limited flexibility in investing in a wide range of maturities that have typically been well received by the mutual banks.
As at June 30, about €59 billion in Italian government securities had been traded on the MTS and BondVision platforms, a decline of 28% compared with the same period of 2015, although we have seen a reversal in the trend from the previous half-year period with trading volumes up 36%.
Despite the sharp decline in flows from the system, we were able to achieve earnings of around €5 million thanks, in part, to energetic relative value activity, which made it possible to take advantage of opportunities provided by the market, particularly along the longer end of the yield curve.
System statistics produced by MTS and broken down into the various classes of government bonds listed and traded show the Bank in 12th place out of 33 participants in the CCT (floating-rate treasury certificates) segment, 21st of 36 in the BTP (treasury bonds) segment, and 22nd of 30 in the BTPi (inflation-indexed treasury bonds) segment. In terms of volumes handled, the Bank is in 24th place overall out of a cluster of 40 participants, accounting for 7% of total volumes traded on the MTS market.
The use of the Bloomberg platform for the submission of orders, which began in June 2015 in order to enhance multi-channel order transmission, was particularly popular among the mutual banks during the period under review. This tool, which joins the other methods for submitting orders, enables the mutual banks to trade directly at the bid and ask prices published by the Bank for all Italian government securities listed on the MTS market or to request the best price that the mutual bank can then accept. In detail, the mutual banks executed €7.9 billion in orders over the Bloomberg platform during the first half of the year, an increase of 21.5% over the €6.5 billion of the second half of 2015.

In the area of derivatives transactions, market conditions are significantly impacting operations overall. The downward trend in interest rates continued throughout the first half of 2016. It is a trend that has been going on for some time in response to the ECB's quantitative easing, which involves the purchase on the market of the government securities of EU Member States in proportion to their capital key, i.e. the share of each country in the central bank's capital.
The search for yields by institutional investors in an environment in which a significant percentage of bonds - short and medium-term bonds in particular - are offering negative yields has favored the purchase of long-term assets, resulting in a marked flattening of the yield curve.
This is clearly a critical issue for banks in terms of net interest income as interest-rate spreads on funding and lending transactions have narrowed sharply in a context that is being further complicated by the recapitalization needs of many banks.
The low level of interest rates has been favoring the offering of fixed-rate loans by all market players, including the mutual banks, which have traditionally had a greater inclination towards fixed-rate lending. The intensive training, development, and support efforts of the Derivatives unit have been of fundamental importance in this regard and have included dedicated meetings with the heads of Finance, Lending and Risk Management at the various mutual banks, providing them with greater knowledge in the area of managing the interest-rate risk inherent in the portfolios of fixed-rate loans with the use of specific macro-hedging strategies.
During the first half of the year, 11 macro-hedging operations for fixed-rate loan portfolios were transacted with the mutual banks for a total notional value of €321 million. A total of 329 new operations were entered into with the mutual banks for a total notional

value of €348 million, along with 67 unwinding operations for a total of €19.3 million.
During the period under review, 50 derivative operations were concluded with Iccrea BancaImpresa for a total notional value of €119 million, compared with €66 million during the first half of 2015, an increase of 80%.
A total notional value of about €2 billion in derivatives were transacted with other market counterparties.
More specifically, transactions involved the following products:

- swaps: €524 million;
- inflation derivatives: €310 million;
- interest-rate derivatives: €22.590 million;
- caps and floors: €38 million;
- bond options: €770 million;
- swaptions: €270 million.

Gains came to €1.18 million at June 30, 2016, whereas the budget forecast for the period called for earnings of €1 million.

During the first half of the year, the medium and long-term funding needs of the Group companies, net of liabilities due, were met by way of the following:
- 3 bond issues totaling €275 million, with an average maturity at issue of 4.85 years; 96% of these placements were for retail customers of the mutual banks and 4% for institutional customers;
- 3 long-term deposits from the mutual banks for a total of €203 million, with an average maturity at issue of 2 years.

The total medium and long-term liabilities issued by the Bank as at June 30 came to €4.68 billion with an average remaining life of 2.61 years (vs. €4.95 billion and a remaining life of 2.39 years at June 30, 2015, and €4.893 billion with a remaining life of 2.75 years at December 31, 2015). This figure also takes account of the portion of the Bank's own issues repurchased during the first half of the year in the amount of €65.4 million, which had a negative impact in the income statement of about €1.56 million on income, but which, for the full year, will have a positive impact as a result of a decrease of about €1.7 million in interest expense. As a result, interest expense on medium and long-term liabilities came to €53.67 million as at June 30, 2016.

The Bank's own portfolio contracted in absolute terms compared with the end of 2015, while posting strong intra-period trading as a result of:

- new macroeconomic policy measures announced by the ECB in March;
- market volatility, particularly in the second quarter, as a result, in part, of the approaching referendum in the UK concerning their withdrawal from the European Union. In June, in order to mitigate the related risks, the Bank's Board of Directors approved the sale of a portion of the portfolio with a duration of more than 2 years totaling €1.2 billion for a gain of €5.5 million.

Specifically, the Italian government securities component amounted to €6.7 billion at June 30, down from €8.2 billion at December 31, 2015, a decline of 18.3%. The average remaining life of these assets was 1.43 years, down from the 2.27 years of December 31, 2015.
Portfolio duration remained below two years as called for by current authorizations.
Equity reserves on bonds went from €54.74 million at December 31, 2015, to €30.35 million at June 30, 2016.
Overall trading in the Bank's own portfolio generated gains of €20.86 million, 85% of the budget forecast for the full year 2016 of €24.5 million.
Interest income on government securities alone came to about €27.8 million, a decrease of 23% compared with the budget forecast for the first half of the year due to:

- the consolidation of a larger portion of the portfolio than originally estimated;
- a smaller average stock in the investment portfolio for the half-year period;
- lower rates on government securities and a consequent widening of the spread compared with the rates expected in the budget (15 basis points).

The component related to medium and long-term intercompany assets totaled €4.8 billion, which, net of amounts falling due and amortization, is in line with the figure at December 31, 2015. These assets generated interest income of about €36 million, in line with the budget.

Taking account of interest on other forms of investment, finance costs for short-term portfolio operations, financing of the government portfolio, and all of the above, net interest income totaled €11.4 million at June 30, 2016.

Total trading gains for the Proprietary Finance & Trading unit came to €27.6 million, which is in line with the budget forecast of €27.5 million.

Treasury and foreign exchange

In the first half of 2016, the Treasury & Foreign Exchange unit underwent a change in organization compared with 2015. The completion of a number of projects made it necessary to change operating processes in order to optimize the service provided to the mutual banks, to the other companies of the Group, and to other clients. The new organization of the Treasury & Foreign Exchange unit is as follows:

- Foreign Exchange: this office operates in the foreign exchange and precious metals markets and handles the management of exchange risk;
- Treasury: this segment operates in the (secured and unsecured) monetary markets managing short-term funding and lending needs, liquidity risk, short-term interest rate risk, and the collateral to be used in monetary-policy and market operations;
- Liquidity Management: this office manages and monitors treasury processes related to settlement systems (T2 and ancillary systems, T2S, CLS, BICOMP, EBA) as well as collateral and correspondence accounts in order to optimize the availability of cash and collateral both for individual banks and for the Group as a whole.
- a team reporting to the head of the unit that is dedicated the various projects under way (the Kondor+ front-office system, EMIR, etc.).

PROJECTS

As part of the T2S project, after completing implementation of the operations-management component of the Target2/T2S regulations and an initial release of the data-storage component for monitoring intraday liquidity as required by Basel 3 in 2015, the Liquidity Management unit then began working on phase 2 of the project.

Completed in the first half of 2016, Project Abaco concerning the transfer of trade receivables or residential mortgage loans to pools called for further implementations based on the new procedures for interacting with the counterparties reported by the Bank of Italy. The Report component for individual positions transferred to pools in the European Datawarehouse is being defined with a number of STDs.

TREASURY OPERATIONS

The main activities of the Treasury segment are as follows:

- market making for the mutual banks and for customers using the Webfin contracting portal;
- activities on unsecured markets to manage liquidity and interest-rate risk;
- activities on collateralized markets both to cover the services provided to the mutual banks and for the funding needs of the various Iccrea Banking Group companies;
- involvement in monetary policy operations with the ECB;
- activities related to management of the MP account held with the Bank of Italy, ensuring observance of the mandatory-reserve requirements, and providing ancillary settlement services to the banks served.

The macroeconomic environment in the first half of 2016 featured high levels of uncertainty concerning growth, increased volatility on the financial markets, and heightened geopolitical risks, all of which hindered the ECB in its efforts to achieve its medium-term inflation target. The unconventional steps taken in 2014 did not have the desired impact, which prompted the ECB to take action again in March 2016 with the expansion of the quantitative easing program (increasing the volume of monthly purchases of financial assets from €60 to 80 billion and extending the maturity to March 2017) and introducing a new program of four targeted longer-term refinancing operations (TLTRO II) with a final maturity of March 2021.

As with the first program, Iccrea Banca, acting as the lead institution, proposed creating a new TLTRO Group in order to enable all mutual banks to participate in the new operations. In all, 162 banks joined the group, and the ECB granted an upper participation limit of €14,464 billion.

The first operation was settled on June 29, 2016, and Iccrea Banca took advantage of the option to pay off the entire €6.5 billion in existing financing related to TLTRO I prior to the 2018 maturity and submitted a new participation of €4.6 billion based on requests from group members of a total of €4.3 billion.

At the same time, we continued to operate in the unsecured interbank market (mainly E-MID/OPTES), trading a total of €118.7 billion (105 Optes contracts totaling €57.7 billion and 1,706 MID contracts totaling €61 billion).

Funding by the mutual banks/Iccrea Banking Group companies at June 30 amounted to about €6 billion, broken down as follows:

- €2 billion in fixed-rate deposits
- €3.3 billion in daily settlement accounts (average balance €4 billion)
- €0.3 billion in Iccrea Banking Group fixed-term deposits.

The abundant liquidity available on the market made it possible to raise an average volume of €25.5 billion at negative rates. In order to maximize net interest income, secured funding to cover lending to the mutual banks and the requirements of the Iccrea Banking Group investment portfolio focused on 1-day transactions with average daily volumes of about €9 billion.

Beginning in May, in the run up to the close of the first half and the instability associated with Brexit, steps were taken to lengthen the maturity of secured funding with 1-12 month transactions, reducing volumes at 1 day to about €6-7 billion.

On the MTS platform, 39,011 contracts were transacted (about 31,000 in the Special segment) for a total of about €1.1 billion (in the first half of 2015 they had totaled 35,000 contracts in the amount of €1.2 billion).

On the New-MIC, 97 deals were contracted with a value of €9.8 billion.

Securitized lending to the mutual banks at June 30 totaled about €22.4 billion as follows:

- €0.1 billion in quarterly ECB operations;
- €16 billion in collateralized market financing;
- €1.8 billion in collateralized financing in which the security is frozen until maturity;
- €0.24 billion in collateralized financing in which the security is frozen until maturity and at a floating rate;
- €4.3 billion in TLTROs.

FOREIGN EXCHANGE OPERATIONS

Foreign exchange operations focused on three main activities:

- market making for the mutual banks and for customers using the Webfin contracting portal;
- trading activities focused on the management of spot and forward positions and currency options;
- the provision of products in the gold segment (loans for use and free sales).

Volumes of (spot and forward) currency transactions were essentially in line with the first half of 2015, with the decline in spot trading being offset by an increase in derivative operations, which saw an increase in both volumes and profitability, posting profits of €170,000 for the half-year period.

Precious metals activity increased markedly following recovery on the market and the acquisition of new customers, which made it possible to increase volumes of both new loans and free sales.

As June 30, foreign exchange operations posted a gain of €1.1 million.

LIQUIDITY MANAGEMENT

The main activities of Liquidity Management were as follows:

- cash management, monitoring both the settlement systems and the Basel 3 intraday-liquidity indicators;
- the movement of collateral for the pool accounts of the customer banks and monitoring of adequacy of the collateral used in accordance with written agreements;
- optimization of the use of available collateral with the Bank of Italy and other counterparties;
- transferring to the Bank of Italy the corporate/residential loans received from the mutual banks using the Abaco system,

managing operations and the reporting to be sent to the ECB;
- monitoring and management of the correspondence accounts held with Italian and international banks;
- managing internal and external obligations related to treasury services;
- developing treasury processes connected with settlement systems (T2 and ancillary systems, T2S, CLS, BICOMP, EBA).

Institutional Sales

In 2016, the Institutional Sales unit continued developing its offering in line with the evolving needs of the mutual banks and of their customers as well as updating the technological architecture that supports intermediation in order to increase the level of integration of operations and facilitate growth in indirect funding throughout the mutual banking system.

ORDER COLLECTION

As part of order collection in instruments traded on regulated markets and MTFs, the first half of 2016 was characterized by considerable price volatility, which had an adverse impact on the trading activities of the mutual banks and their customers.

Compared with the record volumes achieved from 2013 to 2015, the first part of this year posted a decline in volumes of around 29% in the bond segment (€18.6 billion vs. €26.2 billion for the same period of 2015) and about 31% in the equity segment (€2.7 billion vs. €3.9 billion for the first half of 2015).

This performance reflects the general trend in prices on the markets concerned:

- Italy's screen-based equity market (MTA): down 21.4%;
- Bond markets: MOT down 34.4%; EuroTLX down 25.8%; Hi-MTF down 28.9%.

The fluctuating prices of Italian government securities led to a progressive slowing of trading by the shareholders of the mutual banks, with a reduction in the size of trades.

Italy's equity market experienced six months of extreme volatility as a result of the liquidation of four regional banks (B. Marche, Pop. Etruria, C.R. Ferrara, C.R. Chieti) and renewed investor concern about the level of non-performing loans on the books of the leading Italian banking groups.

During the period under review, Italy's FTSE MIB index posted a decline of 22.8%, resulting in a marked reduction in trading.

Within this context, the rankings of Iccrea Banca and of the mutual banking system in total volumes traded for third parties on the markets of Borsa Italiana, Hi-MTF and EuroTLX improved further, reaching first place in the Assosim rankings for Borsa Italiana's domestic MOT bond market on market share of 17.67%.

Iccrea Banca also confirmed our third-place ranking, with market share of 12.10%, in total volumes traded for third parties on the three bond markets as a whole (MOT, EuroTLX, and Hi-MTF).

PRIMARY MARKET

Primary market operations recorded turnover of €1.6 billion, compared with €2.6 billion in the same period of 2015. Here, too, participation in the placement of the ninth issue of the Italia BTP made a decisive contribution, with Iccrea Banca again providing its usual support and assistance to the mutual banks during the entire placement phase.

Mutual banks, operating through Iccrea Banca, subscribed about €1 billion, equal to 12.8% of the total amount placed. More specifically, subscriptions by the shareholders of the mutual banks accounted for 24.2% of the amount reserved for institutional investors.

The remainder of placement activities was represented by participation in auctions of government securities, public offers to sell €(325 million) and placements of bonds issued by Iccrea Banca distributed to the mutual banks and their customers (€275 million).

The fees paid to the mutual banks for their placement activities during the first half of the year totaled over €4.2 million.

Securitizations

The Securitizations unit develops, in cooperation with the Bank's other operating units, securitizations of performing loans for the mutual banks and the Group companies, performing the related upfront and ongoing activities and supporting the mutual banks in developing their markets, with an emphasis on structured finance.

The unit also oversees advisory services provided to the mutual banks and Iccrea Banking Group companies concerning the multi-originator, without-recourse assignment of non-performing loans and, in particular, the selection of the portfolios, due diligence, data rooms, the selection of investors, and all contract-related activities.

Operations in 2016 mainly concerned the following:

- the structuring of a multi-originator non-recourse assignment of non-performing loans (home and commercial mortgage loans and unsecured positions), with the collaboration of BCC Gestione Crediti. At present, more than 49 banks, 4 Iccrea Banking Group companies and the mutual bank Deposit Guarantee Fund are participating, with a total gross value of about €500 million. A number of qualified investors were involved and they will present their bids to acquire the portfolios. The transaction is expected to close by the end of November 2016;
- the structuring of the "Iccrea SME Cart 2016" securitization involving performing lease receivables issued by Iccrea BancaImpresa (IBI) for a total of around €1.3 billion. The transaction calls for issuing two classes of senior notes. The first class will be subscribed by IBI and used for ECB refinancing operations, while the second, in the amount of €480 million, will be subscribed by the European Investment Bank. The transaction will also involve a mezzanine tranche, secured by the European Investment Fund, which will be acquired by CDP and KFW. In order to reduce the costs of managing existing securitizations and achieve a lower overall cost of funding, the four operations outstanding with IBI (Agicart 4 Finance 2007, Agrisecurities 2008, Agicart 4 Finance 2009, and Iccrea SME Cart 2011) were terminated early (in the total residual amount of about €1.1 billion), with part of the repurchased assets to be used in the new securitization. The issue of the securities after this structuring is expected to take place in the first week of August;
- the structuring of a new self-securitization operation of home loans with 18 participating mutual banks for a total of €700 million denominated Credico Finance 16. The senior notes issued by the special-purpose vehicle can be used by the mutual banks in ECB refinancing operations. The operation is expected to be completed by October 2016;
- production and monitoring of "loan by loan" reports required by the ECB for outstanding transactions: Credico Finance 8, Credico Finance 9, Credico Finance 10, Credico Finance 11, Credico Finance 12, Credico Finance 14, and Credico Finance 15 and Dominato Leonense;
- replacement of Deutsche Bank AG and Deutsche Bank SpA (respectively in the

roles of English Transaction Bank, Principal Paying Agent, Transaction Bank and Italian Paying Agent) with BNP Paribas Securities Services in the following operations: Credico Finance 4, Credico Finance 5, Credico Finance 6, Credico Finance 7, Credico Finance 8, Credico Finance 9 and Credico Finance 10. The replacement was prompted by changes in ratings for Deutsche Bank AG by Moody's (A3) and Standard & Poor's (BBB+), which are below the threshold established in the associated contracts for "Eligible Institutions"(A1/A). Work is also under way to replace Deutsche Bank with BNP for Credico Finance 6 and Credico Finance 7;

- preparation of reporting for the ECB concerning the operations of the Abaco pool of Iccrea BancaImpresa through March 2016.

Finance and Middle Office Technical Secretariat

In the first half of 2016 the Finance and Middle Office Technical Secretariat oversaw the activities necessary for the development of the Finance business as well as middle office and collateral management activities.
As regards providing support to the Finance units aimed at meeting the funding requirements of the Iccrea Banking Group, the unit was involved in:

- begin procedures for the renewal by CONSOB of its approval of the Italian issue program amounting to a total of €1,500 million that is instrumental to the issuance of senior bonds in euros and foreign currency, intended for the retail customers of the mutual banks, institutional customers and the retail customers of intermediaries other than mutual banks. Iccrea Banca's product range can be broken down on the basis of the 8 issue programs in which the base prospectus is organized: fixed rate, zero coupon, fixed rate with step-ups, variable rate with possible floors and/or ceilings, mixed rate (fixed or fixed with step-ups and variable with possible floors and/or ceilings), including in this category instruments indexed to the performance of a financial asset or a financial index, call options and steepeners with possible floors and/or ceilings.

As part of the activities for the renewal of the base prospectuses, based on communications with CONSOB in relation to the Registration Document and Base Prospectuses, Iccrea Banca promptly took steps to implement adaptations to the new recommendations of the regulators by including a specific section in the documentation containing important information for investors concerning the most significant and most relevant issues regarding the issuer.
With regard to the Italian and British issue programs adopted by Iccrea Banca in 2015 and valid until June 30, 2016, we issued two Italian bonds in the amount of €15 million and €250 million and a British bond totaling €10 million.

In order to broaden the range of financial products offered to the mutual banks and other banks, a number of master distribution agreements (MDSs) have been signed with leading counterparties that will enable Iccrea Banca to act as the placement agent in the promotion of the financial instruments issued by these banks or by supranational entities. This is being done through the mutual banks and customer banks which, as sub-placement agents, distribute the financial instruments concerned to their own customers. During the first half of the year, the following bond offerings took place:

- 2 bonds issued by Société Générale;
- 2 bonds issued by BNP Paribas;
- 2 bonds issued by the EIB;
- 2 bonds issued by the World Bank.

For these activities, Iccrea Banca received placement fees paid by the issuers, and 80% of these fees were passed on to the mutual banks and other banks.

Support in the provision of investment services
The support for the provision of investment services also involved the preparation and constant updating of the interim reporting

required by supervisory authorities and an analysis of their various proposals for regulatory change, with particular reference to the consultations concerning CONSOB recommendations regarding:

- key information to be provided to retail customers in the distribution of financial products;
- the distribution of financial products using a multilateral trading facility;
- the inclusion of specific important information for investors in the offer documentation related to financial instruments intended for retail customers;
- the measures implementing MiFID II and MiFIR concerning the change in the definition of "dealing on own account", which, if not transposed, could subject intermediaries to their own obligations for the investment services, even when not carried out in relation to customers.

As part of activities to support management of the corporate portfolio, we negotiated and signed documentation for the purchase of units in the Securis Real Estate I and II investment funds for a total of about €337 million as well as the documentation for participation in the Atlante Fund for a total commitment of €40 million.

With regard to the consultation concerning the exchange of financial guarantees and following the proposal made by Iccrea Banca and confirmed by Federcasse to protect the mutual banks, the ESMA issued a consultation paper concerning an extension of the phase-in period for the clearing obligation for financial counterparties with low volumes of business.
The frontloading period for Iccrea Banca's obligation of collateralization with a central counterparty (CCP) clearing houses began on May 21 and will involve all transactions concluded between that date and December 21, 2016, the date on which the collateralization obligation will begin. For the purposes of handling the related operations, we have negotiated and signed a specific addendum to the ISDA Master Agreement (entitled "ISDA Frontloading Additional Termination Event") with the counterparties requesting it. With this addendum, we undertake to collateralize said transactions with a CCP by December 21. Failure to do so will result in the early termination of the operations concerned.
For the actual collateralization with the CCP, we have defined a Client Clearing Agreement with Banca IMI SpA, which, as a clearing member, will act as the intermediary on the trades with LCH Clearnet Ltd.

As part of its middle office activities, and more specifically collateral management activities, the Finance and Middle Office Technical Secretariat continued its work on the project to optimize risk-weighted assets (RWA). The unit provided Iccrea Banca, and offered the mutual banks/customer banks, a portfolio reconciliation service and a collateralization service for positions exposed to risks associated with operations in OTC derivatives. Some 200 mutual banks/customer banks signed up for the portfolio reconciliation service, and a similar number opted to participate in the collateralization process. The collateralization service is provided on a daily basis and, as reported at June 30, 2016, the Bank acquired cash collateral for positions with the mutual banks in the amount of €97 million and securities as collateral in the amount of €51 million.

As regards financial guarantee contracts governed by English law (ISDA Credit Support Annexes) associated with OTC derivatives transactions with leading market counterparties (41 ISDA CSAs), as reported at June 30, 2016, the Bank had acquired and granted cash collateral amounting to €32 million and €322 million respectively.

In an additional development, with regard to repo lending transactions, the Bank adopted daily cash margining arrangements. These agreements (Global Master Repurchase Agreements - GMRAs), in line with the risk mitigation techniques referred to above, govern repurchase transactions and the related exchange of collateral in response to any changes in the mark-to-market value of the underlying security.

As at June 30, 2016 there were 10 GMRAs outstanding.
Collateral management activities and the valuations produced in this process, together with the exchange of collateral intervened with the different market counterparties, generated

continuous feedback on the accuracy of the valuation models used by Iccrea Banca, enabling the relevant company units to start the process of updating the models employed where appropriate.

Within the scope of middle-office activities, the unit also supported the various business lines with reports and analysis of statistics and other historical data and with the parameterization and valuation of certain derivative financial instruments. The unit also generated information on the Bank's own positions in securities, analyses of past and future earnings on our assets, and information concerning the main risk/return factors.

Lending

In addition to institutional activities in support of the financial needs of the mutual banks, during the first half of 2016 the Lending area was involved in proposing and developing solutions to address a number of financial issues associated with the revision of the regulations governing the banking system.

Work on enhancing the efficiency of the evaluation process also continued in the first half of 2016 following a number of updates to the electronic loan application processing system (ELAP), which made it possible to update data on a daily, rather than weekly, basis.

During the period under review, Iccrea Banca continued to provide financial and operational assistance to the mutual banks and the banks that rely on the Bank through 212 financing operations (including increases, renewals and new positions) in the form of operating loans and facilities. Developments in lending confirmed the trend from previous years in the first half of 2016. At June 30, 2016, total lending to mutual banks and other banks amounted to €21,232 million (of which €20,964 million to mutual banks and €268 million to other banks).

Uses of loans mainly regarded lines of credit for treasury operations secured by collateral pools (€20,952 million). The remaining portion was represented by bonds subscribed by the Bank to support the medium/long-term funding of the mutual banks (€250 million), the use of financing for gold loans (€13 million), lines of credit for treasury operations (€12 million), current-account lines of credit (€2 million), and residual mortgage loans (€3 million).

Again in the first half of 2016, Iccrea Banca continued to support mutual banks in challenging situations, including actions in concert with the other members of the mutual bank industry aimed at helping to resolve crises. The total outlay for such intervention was €146.7 million.

It should be noted that, within the broader strategy of supporting the mutual banking system as a whole, a number of these actions served a twofold purpose of protecting the interests of all creditors of the mutual banks (from depositors to the holders of subordinated bonds) and safeguarding the overall reputation of the system.

During the first half of the year, a number of operations contributed to the acquisition of BCC Irpina by BCC Flumeri and the very rapid acquisition of Credito Cooperativo Interprovinciale Veneto by Banca Sviluppo SpA.

More specifically, Iccrea Banca granted *pro rata* financing for a total of €64.75 million – operations in which we acted as the agent bank in a pool with Cassa Centrale Banca and Cassa Centrale Raiffeisen for a total of €117.3 million – to the special-purpose vehicle Lucrezia Securitization for the purchase of the non-performing loans of BCC Flumeri and of Credito Cooperativo Interprovinciale Veneto, which is now in liquidation.

During the first half of 2016, sureties were also issued for mutual banks and other banks in the amount of €1.2 million. The total amount of the guarantees issued as at June 30, 2016, was €4.2 million, related largely to operations for mutual banks (€3.3 million).

As regards the bankers' draft service performed for the mutual banks and the banks that use our Bank as an "intermediary bank", the facility limits authorized during the first half of 2016 for loans and increases amounted to €17 million.

Taking account of the various extraordinary corporate finance transactions (mergers) during the first half of 2016, a total of 258 counterparties that took advantage of this service as at June 30, 2016, for a total stock of €4,954 million.

Correspondent Banking

During the first half of 2016, the Correspondent Banking unit focused its efforts on the networking needed to provide support in the trade activities of the export customers of the various mutual banks and on the rationalization of existing account relationships, so as to ensure the best service at the lowest possible cost for international payments and to implement new payment products in collaboration with the Collections & Payments unit.

Of particular note in the area of trade and related networking were the meeting organized by the IFC in Milan with the various partner banks in the Trade Finance Program (TFP), the Annual Meeting of the European Bank for Reconstruction and Development in London, and the meeting of the Asian Development Bank in Frankfurt. Attendance at these meetings enabled the Bank to enter into useful relationships with these supranational institutions and with the partner banks in high- and medium-risk countries, which is of particular interest to Italian organizations.

The effort undertaken in recent years to develop relationships has resulted in operations for confirming documentary credit, fully guaranteed by Iccrea BancaImpresa, and re-financing of letters of credit (operations in which Iccrea Banca has assumed the risk) as well as in an increase in the number of export transactions received directly from the mutual banks. More specifically, in the first half of 2016, some 40 transactions were carried out with banks in various European, Asian and African countries.

As part of trade activities, we also strengthened the assistance provided directly by the Correspondent Banking unit to the mutual banks to find solutions to problems arising with foreign banks and in setting up export transactions with their customers.

With regard to international payments, in addition to the rationalization of accounts, the unit, with the help of the Payment Systems unit, entered into an agreement with Wells Fargo for the cash letter in US dollars that will enable the Bank to continue supporting mutual bank customers in this business, whereas many Italian banks have been forced to stop providing the service.

Thanks to an agreement with Société Générale in Paris, we have completed the range of international payment services offered by providing mutual banks with a product that makes it possible to make payments in over 100 currencies that had not been served by Iccrea Banca until now.

Finally, we completed preparatory work for expansion of payment services in Chinese yen and for the financing activities and the hedging of exchange risk through the collaboration with Standard Chartered Bank of London.

PAYMENT SYSTEMS

Collections and payments

The Collections and Payments unit is responsible for managing products and services offered by the Bank to banks through the domestic and international payments systems, with the exception of documentary transactions relating to the import/export of goods, ensuring full consistency of the procedures supporting institutional products (SEPA credit transfers, direct debits, SEDA, Riba, MAV, Cash and Checks) with developments in national and international market standards.

The activity enables the participating mutual banks to implement the exchange and settlement of payments/collections with banks in Europe and beyond, minimizing the costs that the individual 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.), while taking full advantage of the mutual bank circuit.

To this end, the following upgrades were released into production or completed in order to implement:

- debtor-side payments through the My Bank or C Bill platforms, which also enables implementation of payments to government entities;
- the analysis and implementation activities to support mutual bank

borrower customers in using, as from the second half of 2016, the collection-side of the MyBank service. This activity will also be extended to government entities using the My Bank platform (AGID-PAGOPA);
- the start of analysis to sign up invoicers on the C_Bill platform;
- the coordination and start of the complex process of connecting mutual/ordinary banks to the AGID node for the execution of payments to government entities, limiting the investment required thanks to the use of system agreements between AGID and the MyBank and C BILL platforms;
- e-billing of government entities by the banks served and their customers;
- document retention for the banks served using the process to provide the DATA CERTA service
- normalization of relations with INPS in relation to the new requests of the pension institute;
- the launch and signing up of banks for the STS procedure.

With regard to SEDA and the Competition Authority's enquiry into the service pricing model defined by the Italian Banking Association (ABI), initiatives with creditor institutions that had decided to no longer use Iccrea as their collection agent were not pursued, with a view to managing the SEDA relationship in the interest of those customers of the banks served.

In 2016, Iccrea Banca has retained its participation on the Board of the European Payments Council through the Italian representation coordinated by the ABI (Unicredit, ISP, IBCPI and UBI), participating with its own representative in the definition of the new EPC Scheme for the execution of instant payments (Inst. SCT Rulebook). As regards payments of 2016 dues for participation in the SEPA schemes, Iccrea Banca exercised the option granted by the EPC to treat the banks it serves as a single group, thereby obtaining a savings of about €200 thousand per year in dues for that participation.
Initiatives to become an accredited data retainer were completed with the Digital Italy Agency (AGID) and we are waiting for this important certification to be issued. It will enable the mutual banks served to carry out the activities requested in the requests for tenders conducted by central and local government entities.
Work on the CIT for check dematerialization is being completed on schedule.
In addition, in international developments, in agreement with the Correspondent Banking unit we:
- reached a new agreement with Wells Fargo to send checks to the correspondent with new procedures that avoid courier shipment;
- with regard to handling international payments, we rationalized and improved the level of service provided, increasing the efficiency of the sector, completing testing for the use of Standard Chartered Bank of London as the new correspondent for payments in yuan (CNY);
- reached an agreement with the correspondent Societè Generale Paris that enables the transmission of payment orders in all currencies previously not handled by Iccrea Banca.

E-Bank

In the first half of 2016, growth continued in both card issuing, with more than 3.4 million active cards and some €8.0 billion in transactions, and in POS and ATM acquiring, with over 145 thousand POS terminals and 4,500 active ATMs, and some €4.5 billion in transactions. Regarding the issuing sector, all three segments (debit, prepaid, and credit cards) recorded appreciable increases that can be summarized, as of June 30, 2016, as follows:
- active debit cards reached 2.18 million compared with 2.06 million at June 30, 2015, an increase of 6.0%;
- the stock of active credit cards increased by 6.7%, going from 0.75 million cards at the end of the first half of 2015 to 0.79 million cards at June 30, 2016;
- active prepaid cards went from 0.40 million at June 30, 2015 to 0.42 million at June 30, 2016, an increase of 8.1%.

Volume growth was also posted in the acquiring segment, reaching €4.5 billion in total transaction value in the first half of 2016 (of which €2.5 billion on the PagoBANCOMAT/BANCOMAT circuit and €2.0

billion on international circuits), compared with €4.4 billion in the first half of 2015.

In the first six months of 2016, a range of projects were also completed, some of which were begun the previous year:

- the start of issue of the new VPAY directly issued debit cards for all mutual banks (new issues and renewal of expiring old products);
- acquisition by Iccrea Banca of a majority stake in FC&Media, a company operating in the e-commerce sector that supported the Bank in implementing the first release of the mutual bank marketplace "Scontiriservati";
- completion of the reorganization and rebranding of the "Scontiriservati" marketplace, which now operates under the new "Ventis" brand;
- in July, migration from SIA of the prepaid cards with IBAN (TascaConto MasterCard) to the Iccrea Banca internal platform, with consequent savings of the cost of processing that had previously been outsourced to (SIA). With the migration of the Tasca Conto cards to the Iccrea Banca internal platform, the migration of the entire debit and prepaid card portfolio begun in 2015 has now been completed in full.
- completion of the roll-out of the RSA platform for secure internet purchases for all Iccrea Banca cards (both Direct Issuing and CartaSi) with a consequent reduction (about 40%) in online purchasing fraud;
- start of issue of new VISA Direct Issuing cards in the test environment, which is necessary to consolidate the certifications obtains from the VISA circuit in 2015;
- continuation of the migration of ATMs to the new ATM-WEB/Multifunction technology, which through updating/replacement of the ATMs owned by the mutual banks with higher performance and more secure hardware and software systems will enable customers to recharge and make payments in addition to carrying out normal cash withdrawal transactions;
- consolidation of the partnership with First Data International through the 'push acquiring' project to support the mutual banks in managing off-premises marketing approaches.
- completion of the process of signing up merchants under the internalized acquiring process, ensuring regulatory compliance (e.g. the new provisions introduced with Ministry for the Economy and Finance Decree no. 51/2014), improved management of information resources, greater operating efficiency and greater pricing flexibility for merchants (e.g. providing mutual banks with price bands for products);
- completion of the information set available to merchants (through the www.cartabccpos.it portal) with the introduction of debit letters for transactions executed on the PagoBANCOMAT circuit.

Work also continued on projects that will be rolled out in the second half of 2016 and the first half of 2017:

- as part of the "Direct Issuing" project, work is approaching completion of the range of Mastercard and VISA products. In particular, activities have nearly been completed to provide the mutual banks with the following products in "Direct Issuing" mode:
    - MasterCard Gold
    - VISA Classic
    - VISA Tasca
    - Mastercard Revolving
    - Mastercard Extended Credit
    - Carta Versamento

  Work on fine-tuning and expanding the insourced platform also continued: during the second half of the year, a series of functions/applications will be made available to automate manual processes, such as:
    - e-money window (for the automated management of transactions to and from IBAN prepaid cards);

Codice campo modificato

- ADM (for the automated management of chargebacks);
- activation of proactive risk management (PRM) for the automated management of fraud prevention activities.

As part of the "Direct Acquiring" project, which will enable Iccrea to perform its current role as an international acquirer on all circuits, including transaction processing, VISA and MasterCard certifications for physical POSs were obtained. VISA e-Commerce certification was also obtained, while MasterCard e-Commerce certification is under way. Certification with the JCB and UPI was also begun with a view to activating the first direct sign-ups of merchants on the Iccrea internal platform by the end of 2016.

INSTITUTIONAL SERVICES

The Institutional Services unit is responsible for the coordination and development of post-trading activities related to operations in the bank's Finance segment, particularly as concerns both management of our own portfolio and the investment services provided to customers in accordance with the Consolidated Financial Intermediation Act. The unit coordinates activities related to the custody and administration of financial services (in accordance with the Consolidated Financial Intermediation Act) and other back-office activities as the settlement agent for the Bank's customers. More specifically, Iccrea Banca's Securities Services product is focused on offering customers a single custodian, as a partner capable of delivering the entire value chain of securities administrative and settlement services and on providing a high degree of flexibility in service delivery so that it can also handle non-standardized models, customizing products and services based upon customer needs.

In the first half of 2016, implementation of projects begun in previous years continued, including: areas affected by the EMIR regarding derivatives, the new European Target2 Securities system for the settlement of securities transactions by the ECB and the revision of procedures to monitor transactions in order to prevent market abuse in accordance with the new Market Abuse Directive (MAD).

In anticipation of the introduction in December 2016 of the obligation to concentrate OTC derivative operations with central counterparty clearing houses (CCPs), the activities to meet this requirement by way of the indirect approach, i.e. through Banca IMI acting as a clearing broker, were completed with the objective of starting operations in the fourth quarter. We have also adapted the procedures for reporting operations to the trade repository Regis-TR to meet the new standards introduced by the ESMA.

With regard to Target2 Securities (T2S), the new infrastructure for the settlement of securities transactions currently being launched by the ECB along with the European System of Central Banks, which began operations in June 2015, on which Iccrea Banca has begun to operate successfully within the new settlement system as a direct participant, in line with the leading international players involved in securities settlement and custody, since August 31, 2015, we have continued the initiative necessary to ensure the changes connected with the evolution of the platform as a result of entering other European markets. The process will be completed in the second half of 2017, when signing up all of the 24 countries that have decided to adopt T2S as their securities settlement system will have been completed. In addition, the functions necessary to ensure adequate service quality to customers have been developed further in order to strengthen the Bank's central role between the markets and the mutual bank network. Iccrea Banca's offering, due to its flexibility and autonomy from central custodians, will enable the mutual bank system to take advantage, in the future, of all of the opportunities that should arise in the world of European post-trading in terms of service quality and costs and will have benefits for their product offering for their customers.

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

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

In response to regulatory developments and recent changes in the procedures for delivering certain services, the associated contracts outstanding with mutual banks were amended appropriately.

Ancillary services and finance database management

The Ancillary Services and Finance Database Management unit handles the administration of financial instruments in connection with operations of both the Bank and our key customers, while also following the related fiscal aspects.

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

- the financial instruments database service (A.T.C.I.) for the accurate recordation of new issues and continuous updating of variable data; the database includes about 85,000 instruments, around 16,500 of which have a balance;
- the management of administrative activities relating to securities held in custody;
- administrative support for activities connected with the management of the "collateral pool" 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, with about 70 mutual banks as customers, with a total of 1,350 issues listed;
- the issuers service, which offers administrative support for mutual bank issues;
- the management of activities connected with the distribution of investment funds, particularly regarding the activities of the payment entity and the Italian offering entity (Bank of Italy regulation of May 8, 2012, the Issuers Regulation, and the Intermediaries Regulation) for foreign funds, the implementation and the management of the FINV platform to support the distribution of units in collective investment undertakings, covered by the BCC Risparmio & Previdenza offering system, the operations of agent banks (S.T. circular 59/2011) and clearing, order routing and custody activities relating to the foreign fund operations of institutional customers. The results achieved in the period confirmed the positive trend seen in recent years, with a significant increase in volumes in the retail segment (about €500 million). Assets under administration totaled around €4,300,000,000at June 30;
- the management of the pricing service for financial instruments, with a focus on issues by the mutual banks, with 148 banks as customers;
- the services concerning compliance with transparency and the monitoring of possible market abuse for which 140 mutual banks had subscribed to the Transaction Reporting service and 116 mutual banks to the MAD service;
- support for mutual banks and their customers in complying with the European Market Infrastructure Regulation (EMIR) for derivatives traded over the counter (OTC). In particular, the companies of the group and 105 mutual banks that have authorized Iccrea Banca to report the transactions are taking advantage of the service of reporting derivatives to the Regis-TR trade repository;
- assistance provided to mutual banks concerning compliance with the obligations of US tax legislation and with FACTA in particular, for which the mutual banks ongoing, specialist support in meeting the obligations introduced during the year.

Back Office and Custody

The Bank's Post-Trading activities were designed to provide complete, integrated support to satisfy the entire range of needs for administrative and securities settlement services, thereby providing appropriate solutions to the needs of the mutual banks, of the Iccrea Banca Finance unit, and of the Group. The Back Office and Custody unit continued efforts to execute projects connected with the changes required by the EMIR in relation to OTC derivatives. In the second half of the year, work began on the second phase of the project involving the securities settlement platform of the European Central Bank, Target2 Securities, as a direct participant. As well as consolidating the work begun in the first wave, development began on solutions to strengthen the role of Iccrea Banca as a service hub between the market and the mutual banks, thereby enabling mutual banks to ensure business continuity with minimal impact on their organization and costs.

In the pursuit of service efficiency and cost containment, we continued interacting with the custodians in order to determine the optimal solutions for taking advantage of opportunities and meeting the operational needs of the market and of the Finance unit, while seeking to reduce the rates we are charged.

As of June 2016, securities in custody and administration amounted to about €105.00 billion.

CENTRAL SERVICES

Institutional Marketing

In 2015, following the internal reorganization that centralized marketing functions within Iccrea Holding, Iccrea Banca's Marketing unit became the Institutional Marketing unit and now encompasses the marketing activities related to BCC Sistemi Informatici and BCC Gestione Crediti, which now report to this unit within the functional hierarchy.

In view of the new organizational arrangements, in 2016 the Institutional Marketing unit has sought to generate internal awareness of its role as a partner of the business lines, which now fall within the scope of the unit's operations, implementing the marketing framework that guided operations in previous years. IN addition, for all areas of operations the goal for 2016 is to consolidate the joint model of the mutual bank system and all of the activities underpinning the value change, including through the development of the revenue model.

The main marketing activities for the new business lines included:

- the creation of the product catalogue for BCC Gestione Crediti, from structuring to creation of the graphic presentation;
- the release of the BCC Gestione Crediti site, which was created to identify the product with a modern and functional graphical theme and user experience, optimized for search engines and using responsive technology;
- the release of the extranet and intranet to meet modern web surfing standards.

In addition, the fine tuning of the digital positioning, technology and online usability of the products and services associated with the CartaBCC brand, developing expertise in project management and digital communication (editorial plan for the Facebook page, the CartaBCC app, analytics for the CartaBCC site, dedicated newsletters).

With the mission to strengthen and renew brand identity, we are leveraging the world of CartaBCC as an ecosystem of products, services, and exclusive benefits that can be accessed via the web. Development is being shaped by a multi-channel approach in order to adapt to the various sues that the brand offers with its product range, from direct issuing to direct acquiring, fostering the matching of supply and demand and increasing value through integrated commercial solutions.

In order to increase virtuous use of CartaBCC as a replacement for cash, a number of support initiatives have been launched:

- Ventis, the e-commerce portal of the mutual bank system;

- PremiaTi, the loyalty program for holders of Credito CartaBCC cards
- Club CartaBCC, the network of merchants and partners in the mutual bank system that offers benefits and discounts to CartaBCC card holders.

Market analysis saw the implementation of reporting on e-money, which is sent to local mutual banks to assist them in monitoring the use of credit, debit and prepaid cards and any divergence from their commercial targets.

Marketing analytics activities continue to study the use of products and services by Iccrea Banca customers in order to support the determination of commercial targets and marketing campaigns, preparing business cases for preliminary and ex post activities while verifying the available potential and its distinguishing features.

During the first half of the year, the implementation of the churn prevention & detention model got under way. It is based on CartaBCC customer activity and identity data and is intended to prevent customer churn.

The various activities conducted by the Institutional Marketing unit are intended to create value for Iccrea Banca, BCC Sistemi Informatici and BCC Gestione Crediti, with the constant improvement its ability to serve its B2B and B2C customers, anticipating their needs and enhancing market initiatives.

Business intelligence

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

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

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

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

ALM

The ALM and Consulting unit is responsible for supporting Business Intelligence in analyzing the operational balance of the mutual banks and in identifying their needs for financial solutions and products.

In the first half of 2016, the Bank responded to the needs that emerged during financial consulting activities (MIFID compliant) and the requests of the mutual banks advanced during meetings, such as the evolution of ALM analysis tools, by:

- incorporating the guidelines of Federcasse concerning the conduct of stress tests in the ICAAP and for the definition of the RAF;
- consolidating the module for the control of liquidity policy, improving reporting on liquidity reserves (committed portion, income profile, risk profile) and the analysis of stress tests (both of liquidity reserves and other sensitive items of the financial position at 1 month);
- incorporating new reporting requirements connected with asset encumbrance, which supplements and completes the analysis of the Bank's liquidity profile;
- introducing new capital soundness indicators, notable the Texas ratio (CET1), as indicated in *Financial Stability Report* no. 1 of the Bank of Italy.

These development activities were accompanied by initiatives to consolidate the analytical environment, introducing new and specific controls concerning the availability and inputting of supervisory and management data.

Development continued on:

- daily reporting on the securities portfolio of the mutual banks in collaboration with the Financial Solutions unit, completing the disclosure on the committed part of the portfolio (an aspect which is correlated with that used in the development of the policy control module) and the introduction of the impact on the risk/return profile of hedging instruments (asset swaps);
- the management dashboard, establishing a new environment for sharing the information with the Risk Management unit of Iccrea Holding.

The investments made it possible to improve the knowledge base on the financial position, performance and risk position of the mutual banks. This was useful in the analysis of the dynamics of the mutual bank system prepared for management at a time characterized by sharp discontinuity and change.

At June 30, 2016 users of the services of the ALM and Consulting unit included:

- consulting contracts:
  - 32 mutual banks;
  - 5 Federations, corresponding to 63 mutual banks;
- ALM contracts
  - 160 mutual banks.

Financial Information

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

It analyzes the indices representing the various asset classes that can be used to build the investment portfolios, such as government and European and international corporate bonds, global stocks (Euro area, USA, Asia and emerging markets), REITs, which offer indirect exposure to the global real estate market, general commodities indices, foreign exchange and the leading precious metal indices. All of the indices are investible using physical-replication ETFs and ETCs listed on Borsa Italiana.

Tables summarizing technical developments in the more than 900 stocks that make up the Eurostoxx, Standard& Poor's 500 and FTSE 100 indices (the benchmarks for the euro area, the United States and Great Britain respectively) are also distributed.

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

Financial Solutions

In the first half of 2016, the Financial Solutions unit carried out the following main activities:

- specialist support provided internally within Iccrea Banca and externally to mutual banks as part of the activities conducted by the Bank in relation to the unconventional monetary policy operations TLTRO 1 and TLTRO 2;
- design of the new class of normal models for the pricing options on interest rates in a market environment of negative interest rates and the associated support to the IT unit and the Misys vendor for their implementation in Summit 5.6;
- design of the new class of pricing models for derivatives on inflation in order to complete the front to back

management in Summit of standard products;

- assessment, at the request form internal Iccrea Banca units and the mutual banks, of non-standard financial instruments;
- specialist support as part of IT projects involving the Finance unit for the development of proprietary business and financial services for the mutual banks;
- consolidation of the Summit&MRGFI tool, which is used to produce the daily financial and performance indicators (VaR, P&L, scenario analysis, etc.) for about 450 financial portfolios held by about 200 mutual banks. The calculation of the risk metrics was extended to derivatives hedging the securities in the mutual bank portfolios and, at the same time, a solution was developed to manage negative interest rates in calculating VaR;
- support was provided to the mutual banks (that use the service providing the delta from the Iccrea Banca IT unit for supervisory reporting) in analyzing the effects of the new assessment framework for embedded options in mortgage loans (floor) in the measurement of the interest rate risk in the banking book: specific quantitative analyses were conducted to identify possible solutions to represent the risk profile of these financial instruments in a manner consistent with the standard model provided for in supervisory regulations;
- development of the quantitative analyses in support of the mutual banks to determine – upon request – the indicative fair conditions of funding connected in particular with subordinated bond issues;
- support provided at the request of mutual banks with regard to capital requirements and compliance with prudential supervisory regulations;
- consolidation of management reporting for the mutual banks on the measurement of counterparty risk and estimating the capital requirements for default risk and the CVA;
- support provided to the Bank's IT unit in implementing the new valuation processes for the mutual banks as well as methods to analyze the various risk profiles of the mutual banks themselves.

Commercial

In the first half of 2016, the activity of the Commercial unit continued as provided for in the Bank's internal rules.

The Institutional Relationship Managers were involved in a total of 1,108 activities, which break down as follows:

Tipologia	N. attività
Contatto con visita	791
Contatto	22
Evento	64
Formazione	89
Attività promozionale	1
Richiesta specialista	43
Attività di lancio	71
Altro	27
Tot visite	**1108**

Key initiatives included the support provided for the promotion of the Satispay platform, Ventis and STS.

The Commercial unit was recently charged with administering contracts for the delivery of services and products to mutual and ordinary banks entered into by the Institutional Relationship Managers on behalf of the Bank.

The CRM tool was also consolidated.

Strategic Planning

The planning and control activities of Iccrea Banca are currently centralized with the Parent Company, Iccrea Holding. The first half of 2016 saw the completion of work on the inclusion of data from Banca Sviluppo, Risparmio e Previdenza, BCC Vita and BCC Assicurazioni in the central management database and at the Group level (the so-called Management DWH) in order to provide uniform data to the management control system, the ALM system and the CRM system. The unit was also closely involved in implementing the new "cost management" model, which converged all cost forecasting models of the various Iccrea Banking Group companies within a single system on the SAP platform. Following the introduction of this new model, the "cost allocation" model was revised by product and business line.

Information Systems

During the period under review, development of the Bank's information systems continued in a direction aimed at supporting business growth and the various initiatives of the Iccrea Banking Group, including a concerted push towards infrastructure-related projects in order to rationalize systems and enhance security.

Efforts continued to focus on the industrial transformation of the Group's information systems in terms of both processes and support mechanism; and the underlying infrastructures themselves.

The adoption of the ITIL (v3) framework and definition of the ICT service-delivery processes have resulted in higher quality in the software and IT services provided, in the handling of incidents, and in the management of system-access security.

In the first half of 2016, significant project objectives were achieved in each of the various areas of ICT organization, and specifically:

Web and multi-channel applications

The Web & Multi-Channel Applications unit is responsible for the maintenance and implementation of the digital projects promoted by the Integrated Multi-channel Services unit (within IH), which handles project management and service design and provides the business requirements and the operating plans, guidelines, and priorities.

Thanks to this close, essential collaboration, the Group's business objectives have been achieved, and other innovative projects have been launched in line with the process of transformation that is currently under way.

All of the initiatives have been designed based on an "omnichannel" approach that is in constant synergy with the other areas of the Group.

The following are a few of the most significant projects of these two units:

- the integration of Satispay and Relax Banking, which included the coordination and oversight of both IT-related actions and others of a regulatory, commercial, and marketing nature. Of particular note is the pilot stage featuring the direct involvement of Iccrea Banking Group employees in service design— a successful experience that will be replicated for future digital initiatives. Just one month since its launch, 30 mutual bank customers of BCC SI had participated in the initiative, with 40 new users being added each week;
- the ongoing promotion of Ventis on the various digital touch points of the mutual banking system (CartaBCC, ATMs, branded sites, Relax Banking, etc.). Analysis is currently under way for the implementation of processing functionality within Relax Banking in order to achieve full integration and synergy;
- planning and development for the CartaBCC touch points in collaboration with the Marketing and E-money units. The team is working to rationalize and coordinate the business needs, customer feedback via Facebook and the call center, the technological infrastructure, security, and organizational goals. Initiatives here include the new, bootstrapped CartaBCC club, enhanced security with the integration of OTP functions for the 3DSecure service, and the updating and optimization of the UI/UX of the public portals and restricted area.

The extended team is constantly engaged in analysis and proof-of-concept of innovative solutions in order to take best advantage of the information available through the various touch points and to further develop the provision of digital services— from cognitive computing, digital analytics, and webcam user recognition to remote signatures, SpID, and EiDAS. These efforts also include the design and analysis of a service for the online placement of the Group's products (current accounts and CartaBCC for phase 1), which features close collaborations with companies such as BCC Sistemi Informatici, Sinergia, and Banca Sviluppo.

Web & Multi-Channel Applications and Integrated Multi-Channel Services are also working together on implementing and monitoring our (evolving) digital corporate identity on the various digital channels, while also providing ongoing consulting with the various areas of the Group in order to ensure the best application on digital channels;

Of particular interest was our involvement in European projects and roundtable discussions promoted by UNICO regarding online payment systems and other digital innovation. These meetings served as an invaluable opportunity to interact with other colleagues and create potential synergies in dealing with shared issues, such as the organization of a hackathon for PSD2. Other Italian and European legislation related to online payments, data protection, and all things digital, in addition to the PSD2 discussions, are also constantly monitored in order to be prepared to take advantage of the vast potential of omnichannel, digital services.

In the area of mobile computing, scouting is ongoing, as are efforts aimed at integration with apps and other innovative services, such as MyCicero, Mobysign, Xidera, and others. The apps for BCC Valpolicella, JUICE for Iccrea Banca Impresa, and for Crediper, as well as the multivendor app, have also been developed.

The branded offering is regularly updated and expanded (in both IT and service design), including the launch of the "New Branded App" project, which calls for the introduction of new features to support mutual-bank business strategy, such as personal finance management (PFM) tools. The branded offering has also been expanded with the design and offering of new branded mobile and responsive sites.

In the ongoing partnership with the mutual banks, websites are currently being updated for the 85 banks that have chosen to adopt the branded site for the industry. This initiative aims to leverage the loyalty to the Group, while encouraging mutual banks to update their websites to meet new market standards (e.g. responsive technologies) and new approaches in user experience and assisting them with this process.

During the first half of the year, 25 new sites were created; a framework agreement was signed with Federlus, and a partnership with the Tuscany federation was defined for the integration of their BPM system with the Publisher to the benefit of around 90 mutual banks. A range of projects are under way with the mutual banks, federations, and companies of the Group, including the implementation of new digital channel for BCC Sistemi Informatici and BCC Solutions (internet, extranet, communities, etc.), and discussions are already under way with over 18 banks.

Routine support and maintenance is also ongoing for the 250 or so existing applications and environments, particularly in relation to the development of communities such as E-money, Finance, Commark, and the Iccrea Banking Group Community intranet (and related initiatives) and the collaboration with BCC S.I. for the updating and integration of Relax Banking.

Electronic Money Applications

The work of this unit focused on supporting the e-money segment on both the issuing side (cards) and the acquiring side (ATM and POS terminals).

In particular, work has begun on bring the "e-money branch" up to full operations by September and on monitoring issuing in relation to contracts with the Application Centers of the Bancomat consortium.

In addition to aspects of business strategy, the unit also implemented the mandatory requests of the various regulators and of the internal audit units (e.g. FATCA regulations, CRS analysis, adaptations required by the various circuits, etc.).

The following activities were successfully completed:

- Bank transfers for restructuring
- SatisPay, survey of merchants without VAT numbers
- Direct issuing: Development of SMS and loyalty campaigns
- Direct issuing: Launch of BCC Alpi Marittime customized product
- Direct issuing: PAYMENT (payment of winnings after account processing)
- Direct issuing: Launch of V-Pay with automatic renewal from old BIN with the same PIN
- Direct issuing: IBAN Prepaid migration and insourcing from SIA to Iccrea Banca
- Direct issuing: D.Versa deposit card
- Direct issuing: Apertura Gold and Socio Gold
- Direct issuing: Apertura Credito VISA and Prepaid VISA
- Direct issuing: Apertura Utylia Maestro
- Direct issuing: Apertura V-Pay Conto Base and V-Pay Conto Giovani

Work also continued on enhancing the security of architectures, particularly in the area of High Availability e-money.

Payment Systems and International Applications

During the first half of the year, with regard to the Applications Center, analysis was completed and implementation began for the check dematerialization project. The test phases are to begin in November.

The main activities during the period in relation to the Applications Center were the following:

- distribution of the new SEPA reachability data sent to the STDs for SCT and SDD;
- start of the daily acquisition of SwiftRef data;
- exchange of customer statements (MT940) with the Cedecra STD;
- bank transfers in "exotic" currencies not handled by our treasury office;
- launch of the query and GAFI modules on the payments hub and adaption of procedures to the new interbank regulations for internal fund transfers on foreign accounts with Iccrea Banca;
- regulatory adaptations for remuneration and for SEDA procedures (go-live with Mediaset).

With regard to CBI, we have performed regulatory implementation for the February 2016 end-date.

For AGID, we completed work to sign up banks for CBILL and MyBank payments to government entities, and for the MyBank channel we began work to enable banks to sign up merchants by the end of 2016.

The SWIFTNet Trade Services Utility (TSU) was released for Trade Finance and the dematerialization of letters of credit. This year, Iccrea Banca, together with only two other Italian banks, is also participating in the 2016 SWIFT cold-start exercise within the framework of the business continuity testing program.

With regard to the TARGET operations group and the payment hub:

- we completed the update concerning the SEPA November change;
- we launched the SCT services for Aareal Bank;
- we adapted the STDs for the new cut-offs required by the SEPA;
- we updated the FT-CMD application to release 3.07;
- we updated the dashboard for New GIS monitoring and the processes for the payment hub and the TARGET operations group;
- we launched the COR1 service for the hub.

Operations and Management Applications

Within the scope of the program launched in 2015 to further develop the reporting systems, the scope of the operational data warehouse was extended to the other companies of the Group (Banca Sviluppo, BCC Risparmio e Previdenza, BCC Vita, and BCC Assicurazioni), and we completed integration with Group data for cross analysis.

For the Regulatory Conservation & Electronic Invoicing system, additional services have been made available for Federcasse and participating mutual banks via the STDs.

Projects launched in the first half of the year included the check-dematerialization project for the digital storage of checks and the project to monitor misalignments between general and sector-specific data.

This unit also pursued other development efforts, particularly in the area of securitization, in order to support five mergers of mutual banks that involved nine securitization operations on multiple occasions.

Finance Applications

In 2015, as the period of negative interest rates continued, it became necessary to assess the adequacy of information system applications in the Finance segment. As a result, towards the end of 2015, we launched a project concerning negative interest rates, and this project was successfully completed at the end of March 2016. Of all the applications assessed, only Summit 5.6 was found to be in need of work. The objectives of this project concerned improvements to the pricing of derivative products related to:

- the development of business with market counterparties and with the mutual banks;

- fair-value measurement for financial reporting and for the management of collateralization operations (CSAs);
- detection and management of risks, of administrative processes, and of regulatory reporting;
- the quality of the information sent to the STDs for the mutual banks.

The positive outcome of the project achieved the following results:

- improvements to the valuation of interest-rate derivatives by adopting the new "normal" class of valuation models in line with market best practice;
- management of the implementation of models redesigned in house with IT support by the vendor;
- implementation of the new valuation framework within an appropriate timeframe given the complexity of the project in terms of financial engineering;
- provision of the financial documentation for the derivatives valued using the normal framework to the Administration unit (during the project and for the administrative deadlines of December 31, 2015, and March 31, 2016) for comparison with the numbers generated by the lognormal framework.

During the first half of 2016, the Finance Applications unit completed projects related to:

- the ABACO platform for the use of bank loans in operations with the ECB for the new procedures related to "homogeneous pools of assets";
- areas affected by the EMIR, particularly as concerns the clearing of eligible contracts with institutional counterparties;
- new Market Abuse Directive (MAD) procedures for services related to transparency requirements and the monitoring of potential market abuse;
- technological (hardware and software) and functional upgrading of the RET/LOMS application to make the platform compliant with the new Thomson Reuters contract signed in 2015 (which sought to make the scope more precise than necessary for services used by the business and control functions).

The unit also completed projects related to mandatory fiscal issues, such as the new substitute-tax process governed by resolution no. 16E of February 16, 2015, of the Italian inland revenue office, which establishes that the party acting as withholding agent in relation to financial income is the intermediary nearest to the investor/customer under the deposit agreement. Therefore, the procedures for meeting the fiscal obligations of Iccrea Banca were implemented beginning in 2016.

The second wave of the Target2 Securities project, the new infrastructure implemented by the ECB and the Eurosystem to settle securities transactions got under way. Iccrea Banca has distinguished itself internationally for the quality of its implementations and the consistency of its management of the project.

In terms of the rationalization and optimization of costs and services, we also completed the feasibility study for the assessment of all of the application platforms of the Finance area. As a result of these efforts, we have established an understanding between the senior management of the Iccrea Banking Group and MISYS concerning a revision of the agreements underlying this vendor's application platforms (SUMMIT and Kondor+) with a view to upgrading to a new, more advanced suite of application services based on a new form of partnership that takes account of the upcoming transformation of the Group within the scope of the reform process that is currently under way.

A number of activities regarding the development of existing software platforms were also conducted during the first half of 2016. The following were some of the most significant completed during the period:

- Migration of Banca Alpi Marittime from SBA to BCC S.I.;
- Management of the income-distribution ethical funds on the UCI platform (agent bank service);
- Automation of treasury and foreign exchange operations of the intraday lines related to the mutual banks operating in collateral pools with Iccrea;
- Implementation of flows to the issuer for the assignment of the Rai Way

shares resulting from ongoing possession of securities with warrants;
- Management of credit support annexes has been added for BCC Roma, including the option for the bank to deliver securities as collateral to Iccrea;
- Upgrading of the pool account monitor function related to treasury and currency transactions in ECB operations;
- Adaptation of the delegated powers functions for "H9 – Counterparty Risk" related to the contingency lines;
- Change to the MQ record layout for participation in tender offer on generic third-party account in order to extend the collection of bids by the STDs and, consequently, by the mutual banks;
- Automation of the accounting of futures transactions executed on the Eurex market with the HSBC/IMI counterparties (including managing the calculation of separate margins across multiple brokers) using the terminals of Bloomberg's TOMS position-keeping system;
- Migration of the protocol for execution transmission to TOMS due to the technological evolution of the Bloomberg platform;
- Inclusion of asset swaps in Summit-MRGFI in the risk/return metrics for the mutual banks;
- Provision of new LIE whitelist percentages from Morningstar.

We began numerous projects that will help to improve application performance and information security and ensure greater business continuity.

SAP Competence Center

The most important project for the SAP competence center is the Cost Management Program involving the entire Banking Group, the objective of which is to strategically redefine the cost management model at the group level in order to enhance governance and guidance by the Parent Company and to reduce operating costs. This program began in 2015 and called for a series of releases that year (i.e. the single chart of accounts and operational budget), and it was then extended into 2016 with the release, in the first half of the year, of the cost management application for the first three group companies: Iccrea Banca, Iccrea BancaImpresa and BCC Solutions, for which the entire information system was also released.
The most important goals achieved by the new model were as follows:

- Shifting spending authorization from the moment of execution to the operational-budget level;
- Assigning budget management of the entire Group to the various responsibility centers;
- Separating the expenditure execution stage, centralizing it in the back office and Group Procurement unit;
- Standardizing procedures for recognizing events by way of a single chart of accounts for the Group.

During the second half of 2016, the cost management, general accounting, financial reporting, and accounts receivable applications are scheduled to be released for BCC SI. The other companies of the Group will be migrating in January 2017.

Data center

During the period, this unit completed the project, begun in the second half of 2015, to rationalize the Oracle databases, which resulted in the expected improvements in the security and efficiency of the ICT areas.

The architecture for the server and storage infrastructures was also defined. This architecture is based on system virtualization in order to ensure standardization and efficacy (i.e. greater security, scalability, and flexibility in the use of resources), and particular emphasis was placed on effective capacity and obsolescence management.

Work has begun on revising the backups of the (Linux and Microsoft) virtual server components that allow for greater efficiency and efficacy in fast, accurate backup and recovery.

A project has begun to update the disaster recovery (DR) infrastructure in line with the group model and in accordance with the expected recovery-point and recovery-time objectives (RPO and RTO) of the business impact analysis (BIA). Scheduled to be completed by September, the first half of the year was dedicated to the infrastructure components that support critical processes (which passed specific DR testing in the early July). With regard to essential technologies, work continued on updating and adapting infrastructures based on business needs, both in terms of capacity and regulatory compliance. The business continuity management system has also been upgraded to the specifications of the new ISO 22301 standard, and compliance has been certified (having passed the inspection on June 10).

Audit

In the first half of 2016, the Bank continued to implement the system of internal controls to ensure, with ever greater effectiveness, the existence of a system of adequate, reliable, complete and functional controls.
The main internal auditing efforts in the period concerned:

Payment systems: an audit was conducted of the controls assigned to the "Intermediation Controls" unit for payment operations handled in and outside of the EU. The situation was found to be largely positive for the overall structure of the control system, finding that the organization of the unit was adequate, that it operated in compliance with internal rules and that controls of the underlying risks involved in intermediation operations were effective and efficient. However, the audit also found that maintenance interventions were necessary with regard to regulatory and operational/IT issues concerning: I) the updating of internal rules; II) consolidation of the control process through the development of a solution for the issues found involving the application used for controls.
In the payment systems area, the unit also continued to provide structured oversight of fiduciary deposits handled by outsourcers, which are responsible for cash management. No issues were found.

Finance: the audit activity regarded i) the "Interest rate hedge effectiveness testing" service provided to mutual banks. The examination found that the organization and operations of the service were generally adequate and executed appropriately. A number of issues and room for improvement were identified concerning the contract documentation for the delivery and governance of the service (missing or inadequate company rules governing the service); ii) the process of "trading in financial instruments as part of the management of individual proprietary portfolios". The analysis found that the situation was generally adequate, as operations and the risks assumed were generally monitored appropriately. A number of regulatory/organizational measures were recommended to strengthen the existing control arrangements, including the formalization of certain long-standing operational practices; iii) the processes of "trading in financial instruments listed on regulated markets and the MTF, OTC bonds and the placement of financial instruments as part of the provision of the investment services of "order collection and transmission", "execution on behalf of third parties" and "subscription and/or placement" offered by Iccrea Banca to mutual banks/ordinary banks". The audit activities found that the situation was generally adequate and operations were performed normally, accompanied by a robust system of first and second-level controls, with a focus on core investment service operations. The audit also identified certain areas of improvement in the system of internal rules and issues concerning the management and retention of contract documentation associated with investment services.

Information technology: audit activities included checks of the system of controls of the process of managing changes in technology infrastructure, with a focus on physical and virtual devices for data processing and transmission as well as basic and utility software. The control system was found to be adequate and complete overall, as most of the operational phases of the process were governed by the expected assessments and authorization arrangements. The control architecture was generally appropriate for governing risks, using organizational measures that facilitate communication between risk management functions and operational functions. One issue regarded the ex post monitoring of infrastructure modifications, which was only partially reliable and functional, as the active control measures, while conducted regularly, required supplementation (for example, in the application to the test/approval environment, to changes prompted by incidents, etc.) and consolidation within the reporting/authorization workflow governing process activities.

For all of the issued found, appropriate corrective measures have been identified by the units involved.

Finally, appropriate follow-up of all of the audited processes will be ensured through systematic monitoring of the interventions identified by the units involved to remedy the issues uncovered by the audit activities.

Compliance & Anti-Money Laundering

The Compliance & Anti-Money Laundering unit, as renamed as from July 1, 2016, is responsible, in accordance with guidelines established by the corresponding unit of the Parent Company, for identifying, assessing and monitoring the risk to the Bank associated with non-compliance, money laundering and terrorist financing, with a view to ensuring compliance with the law and the fair conduct of banking activities, which by their very nature are grounded in a fiduciary relationship.

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

Risk Management

In recent years, risk management efforts have played an increasing role in the governance of risk, a fact that has been reiterated by regulators in the new provisions governing internal control systems.

In order to increase the effectiveness of risk governance and the efficiency of the overall internal control system, while responding to developments in the regulatory environment, the CRO (Chief Risk Officer) area was established as the natural evolution of Group Risk Management itself, with units reporting directly to the board of directors of each subsidiary. The CRO area is the Group's organizational structure responsible for second-level control activities, operating on the basis of the functional attribution of duties to the Parent Company in the area of risk governance. In the first half of 2016, a number of initiatives were completed in order to strengthen organizational arrangements for second-level controls, including:

- the establishment of a Compliance unit separate from the CRO area. More specifically, a CCO (Chief Compliance Officer) area was created that is separate from the CRO area, reporting directly to the Executive Committee of the Parent Company;
- the revision of the CRO area, with the establishment of a dedicated Operational & IT Risk Management unit.

Following these organizational changes, the associated set-up activities necessary for the operation of those units were begun.

The duties of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, the development of recommendations for the Risk Appetite Framework and its associated operational implementation (the Risk Appetite Statement), monitoring developments in the exposure to the various types of risk and, in its sphere of responsibility, performance of duties with regard to reporting, supervisory inspections and supervisory regulation.

The Bank's risk management activities are performed by the Risk Management unit, reporting directly to the Board of Directors and interacting functionally with the Financial Risk Management unit of the Parent Company.

The Bank Risk unit oversees and monitors credit risk. In the first half of 2016, it continued to analyze and report on a monthly basis on the performance of the portfolio with regard to the two main types of counterparty: banks and ordinary customers. It also continued the daily monitoring of bank counterparties continued with the production of early warning indicators. Work was also continued on updating the internal ratings for the bank counterparties with whom the Bank operates (i.e. mutual banks and ordinary banks) through the system that the unit uses. Finally, the estimation of the risk parameters used for determining collective impairment was updated, reporting the results to the Board of Auditors and the Board of Directors. Following through with the work begun in 2014, the unit continued to develop the RiskSuite system, with specific regard to the Bank Risk Assessment module (the "BRA"), strengthening its technical, organizational and methodological foundations in order to improve data quality and the underlying analyses.

The Market Risks unit is responsible for managing and monitoring market risks. In the first half of 2016, it continued to strengthen the support tools for these duties. Ongoing maintenance of the application procedure (RiskSuite) used to measure risk and produce monitoring reports the risk position was a key activity during the period. This enabled the Bank to accurately monitor the financial portfolio on a daily basis.

In view of the constant evolution of the regulatory framework and the increasing complexity of the operational environment, it was necessary to finalize activities to revise the methods for calculating market risks with the introduction of a historical simulation approach used by the leading financial institutions. The new approach can also be used to estimate additional risk metrics, in line with the new regulatory framework. In this context, and following a gap analysis of the entire market risk measurement system, a broader project planning effort designated "Market Risk Framework" will be undertaken.

Within the context of balance sheet management and liquidity risk activities, management and monitoring is performed by the Interest Rate Risk and Liquidity Adequacy unit, which in the first half of 2016 continued to monitor the equilibrium of the Bank's asset and liability structure. With regard to liquidity risk, the unit performed daily monitoring of the "1-day" and "up to 1 month" operating liquidity positions at the individual and consolidated levels and all the risk indicators provided for in the RAS and the system of delegated powers. In order to comply with regulatory requirements and meet operational needs, two Group policies were established, setting out the guidelines and principles for prudent management, the roles and responsibilities of company bodies and operational structures and the control processes for both the interest rate risk on the banking book and liquidity risk.

The liquidity policy was updated in the first half of 2016 in order to incorporate within a single document all of the various aspects associated with managing liquidity risk (i.e. the model for the centralized management of operating and structural liquidity, the description and updating of the Funding Plan and the Contingency Funding Plan, the identification and measurement of operating and structural liquidity, the system for specifying and monitoring limits, the stress testing framework and reporting) and the systems for internal fund transfers (fund transfer pricing), as well as a description of the overall information system connected with these operations.

The growing financial complexity managed by the Iccrea Banking Group, especially by Iccrea Banca in its role as the manager of Group finance activities, has prompted the introduction of significant changes in the technical and methodological infrastructure for risk management as a necessary means for developing the analyses needed in order to optimize funding, hedging and risk-positioning strategies.

During the first half of work continued on the evolution and development of new functions for the analysis, monitoring and reporting of financial risks, in line with the measures called for in planning for the various forms of risk and in order to respond promptly to the requirements and requests of the supervisory authorities (the ECB).

As part of the balance sheet management and ALM analysis and techniques, the unit supported the Group Finance Committee, working in synergy with the other units involved in the activities.

In the first half of the year, the first ILAAP report was prepared and transmitted to the supervisory authorities. It regards the internal liquidity adequacy assessment processes of the Group. The activities were coordinated by Financial Risk Management and involved all the units affected.

In addition, the activities required to prepare the disclosures on the various types of risk to be provided to the ratings agencies for the annual review of the Bank's rating were carried out, as were those associated with preparing the reports to the supervisory authorities for the purposes of Pillar II and Pillar III compliance at the consolidated level. In this regard, in the first half of 2016, Risk Management was further involved in activities concerning compliance in the SSM, such as impact analyses (the Quantitative Impact Study or QIS) aimed a assessing the quantitative effects (in terms of regulatory capital) of proposed changes, and in the analysis of financial, credit and concentration risk as part of the Short Term Exercise within the Supervisory Review and Evaluation Process (SREP), as well as the performance of the second ECB stress test.

General Accounting and Financial Reporting and Sectoral Accounting

In addition to providing support and administrative cooperation to the mutual banks, the federations and the Group companies, during the first half of 2016 the "General Accounting and Financial Reporting" and "Sectoral Accounting" units were directly involved in the activities associated with the following projects:

- Project Cost Management: in accordance with the "synthesis systems" program, during the first half the migration to the new SAP platform and the changes in the organizational process were completed;
- Single Chart of Accounts: in order govern expenditure, it was essential to create a new Single Chart of accounts for all Group companies in order to ensure the uniform recognition of spending within the Group. During the period, refinement of the Single Chart of Accounts continued on the basis of the needs of the companies belonging to the Iccrea Banking Group;
- T-LTRO: the data collection operating procedure for the reporting templates for managing the second Iccrea T-LTRO Group, with the participation of 162 mutual/ordinary banks, was implemented;
- E-money: the accounting rules for the "direct acquiring" procedure were established";
- Effectiveness testing service: during 2016 a number of meetings were held with mutual banks that desired to hedge portfolios of loans or securities holdings in collaboration with the Finance unit. The number of effectiveness tests of hedges carried out as at June 30, 2016 for about 69 mutual/ordinary banks decreased by about 7% compared with December 31, 2015.

5. SUBSEQUENT EVENTS

On July 12, the Extraordinary Shareholders' Meeting approved the merger of Iccrea Holding into Iccrea Banca. The operation will involve a reverse merger in order to preserve the stability and continuity of relationships and the brand awareness and reputation for reliability that Iccrea Banca has developed and consolidated over the years. It will also enable the Bank to continue operating on domestic and international markets with the existing banking license. The merger will take legal effect as from October 1, 2016, while tax effects will began as from the first day of the current financial year. The Extraordinary Shareholders' Meeting also appointed the members of the Board of Directors and the amendment of the bylaws.

On July 26, 2016 a draft agreement was reached with the Group's main trade unions on containing labor costs. More specifically, the Board of the Parent Company approved the 2016/2018 Business Plan in line with the targets set by the ECB supervisors. The main objectives include a substantial reduction in administrative expenses, with a gradual cut of 20% after three years, and an annual 10% reduction in labor costs.

6. TRANSACTIONS WITH RELATED PARTIES

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

Accordingly, in the first half of 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 under way, there are no positions or transactions resulting from atypical or unusual transactions.

Pursuant to Consob communications DAC/98015375 of February 27, 1998 and DEM/1025564 of April 6, 2001, the term "atypical or unusual" refers to transactions whose scale, counterparties, purpose, method of determining the transfer price or timing might raise concern about the accuracy and completeness of the disclosures in the financial statements, conflicts of interest, preservation of the integrity of the company's financial position and protection of shareholders.

Part H – Transactions with related parties in the notes also reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of Legislative Decree 385 of September 1, 1993.

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

In addition, in the first half of 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.

7. OUTLOOK FOR THE FULL YEAR

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

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

These interim financial statements were prepared and approved on August 4, 2016 by the Board of Directors, which authorized their release as no further modification is envisaged.

Rome, August 4, 2016

THE BOARD OF DIRECTORS

Financial statements

BALANCE SHEET

	ASSETS	30/06/2016		31/12/2015	
10.	Cash and cash equivalents		108,721,573		91,044,385
20.	Financial assets held for trading		498,551,864		402,779,515
30.	Financial assets at fair value through profit or loss		14,877,342		337,911,423
40.	Financial assets available for sale		5,589,078,789		6,720,077,506
50.	Financial assets held to maturity		1,566,246,523		1,779,509,026
60.	Due from banks		34,725,316,585		31,939,294,138
70.	Loans to customers		4,055,661,778		4,077,714,650
80.	Hedging derivatives		11,656,769		10,181,179
90.	Value adjustments of financial assets hedged generically (+/-)		1,263,390		931,764
100.	Equity investments		264,611,409		263,610,066
110.	Property and equipment		7,127,898		7,794,323
120.	Intangible assets		7,347,845		8,731,680
130.	Tax assets		3,364,264		6,272,896
	a) current	-		3,132,565	
	b) deferred	3,364,264		3,140,331	
	of which Law 214/2011	3,046,839		3,124,963	
150.	Other assets		254,502,439		143,488,731
	TOTAL ASSETS		**47,108,328,468**		**45,789,341,282**

	LIABILITIES AND SHAREHOLDERS' EQUITY	30/06/2016		31/12/2015	
10.	Due to banks		12,854,978,937		13,670,456,675
20.	Due to customers		28,257,675,234		26,029,647,965
30.	Securities issued		4,492,361,251		4,368,997,749
40.	Financial liabilities held for trading		489,593,532		475,615,372
50.	Financial liabilities at fair value through profit or loss		116,782,655		437,636,496
60.	Hedging derivatives		107,389,109		88,034,704
80.	Tax liabilities		11,469,189		17,988,432
	a) current	770,526		-	
	b) deferred	10,698,663		17,988,432	
100.	Other liabilities		223,093,299		172,170,921
110.	Employee termination benefits		13,280,982		12,768,900
120.	Provisions for risks and charges::		6,850,044		6,352,336
	b) other provisions	6,850,044		6,352,336	
130.	Valuation reserves		73,851,611		89,087,911
160.	Reserves		194,425,293		194,425,293
180.	Share capital		216,913,200		216,913,200
200.	Net profit (loss) for the period		49,664,132		9,245,328
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**47,108,328,468**		**45,789,341,282**

INCOME STATEMENT

			30/06/2016		30/06/2015
10.	Interest and similar income		125,586,785		151,235,359
20.	Interest and similar expense		(94,996,348)		(104,130,182)
30.	**Net interest income**		**30,590,437**		**47,105,177**
40.	Fee and commission income		173,118,105		188,050,094
50.	Fee and commission expense		(113,190,092)		(123,443,593)
60.	**Net fee and commission income (expense)**		**59,928,013**		**64,606,501**
70.	Dividends and similar income		299,710		208,582
80.	Net gain (loss) on trading activities		7,416,434		14,501,640
90.	Net gain (loss) on hedging activities		316,152		(502,725)
100.	Net gain (loss) on the disposal or repurchase of:		50,899,368		21,503,786
	a) loans	(39,682)		3,691,806	
	b) financial assets available for sale	53,278,931		22,282,512	
	d) financial liabilities	(2,339,881)		(4,470,532)	
110.	Net gain (loss) on financial assets and liabilities designated as at fair value		1,587,697		758,480
120.	**Gross income**		**151,037,811**		**148,181,441**
130.	Net losses/recoveries on impairment:		1,980,991		(1,761,632)
	a) loans	3,252,324		856,508	
	d) other financial transactions	(1,271,333)		(2,618,140)	
140.	**Net income (loss) from financial operations**		**153,018,802**		**146,419,809**
150.	Administrative expenses:		(96,293,803)		(90,777,991)
	a) personnel expenses	(26,454,406)		(30,728,604)	
	b) other administrative expenses	(69,839,397)		(60,049,387)	
160.	Net provisions for risks and charges		(525,589)		(150,337)
170.	Net adjustments of property and equipment		(1,458,623)		(1,520,224)
180.	Net adjustments of intangible assets		(2,670,705)		(2,756,682)
190.	Other operating expenses/income		11,006,076		9,932,336
200.	**Operating expenses**		**(89,942,644)**		**(85,272,898)**
250.	**Profit (loss) before tax on continuing operations**		**63,076,158**		**61,146,911**
260.	Income tax expense from continuing operations		(13,412,026)		(21,237,298)
270.	**Profit (loss) after tax on continuing operations**		**49,664,132**		**39,909,612**
290.	**Net profit (loss) for the period**		**49,664,132**		**39,909,612**

STATEMENT OF COMPREHENSIVE INCOME

	30/06/2016	30/06/2015
Net profit (loss) for the period	**49,664,132**	**39,909,612**
Other comprehensive income net of taxes not recyclable to income statement		
Defined-benefit plans	(459,198)	(187,227)
Other comprehensive income net of taxes recyclable to income statement		
Cash flow hedges	1,996,199	(182,851)
Financial assets available for sale	(16,773,301)	(35,632,264)
Total other comprehensive income net of taxes	**(15,236,300)**	**(36,002,342)**
Comprehensive income (Item 10+130)	**34,427,832**	**3,907,270**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT JUNE 30, 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 ALLOCATIONS	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME AS AT 30/06/2016	SHAREHOLDERS' EQUITY AS AT 30/06/2016
Share capital:														
a) ordinary shares	216,913,200		216,913,200	-			-	-						216,913,200
b) other shares	-		-	-			-	-						-
Share premium reserve	-		-	-			-							-
Reserves:														
a) earnings	112,422,929	-	112,422,929	-		-	-	-	-					112,422,929
b) other	82,002,364	-	82,002,364	-		-	-		-		-	-		82,002,364
Valuation reserves	87,087,911	-	87,087,911			-							(15,236,300)	73,851,611
Equity instruments	-		-							-				-
Treasury shares	-		-				-	-						-
Net profit (loss) for the period	**9,245,328**	**-**	**9,245,328**	**-**	**(9,245,328)**								**49,664,132**	**49,664,132**
Total shareholders' equity	**509,671,732**	**-**	**509,671,732**		**(9,245,328)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,427,832**	**534,854,236**

"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. (now BCC Beni Immobili S.r.l.) and the transfer of the "branch services" business unit to Banca Sviluppo.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT JUNE 30, 2015

				ALLOCATION OF NET PROFIT OF PREVIOUS PERIOD		CHANGES IN THE PERIOD								
							EQUITY TRANSACTIONS							
	AS AT 31/12/2014	CHANGE IN OPENING BALANCE	AS AT 1/1/2015	RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGE IN RESERVES	ISSUES OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME AS AT 30/06/2015	SHAREHOLDERS' EQUITY AS AT 30/06/2015
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			-							(36,002,342)	60,289,651
Equity instruments	-		-							-				-
Treasury shares	-		-				-	-						-
Net profit (loss) for the period	**47,692,915**	**-**	**47,692,915**	**(7,500,000)**	**(40,192,915)**								**39,909,612**	**39,909,612**
Total shareholders' equity	**547,823,401**	**-**	**547,823,401**		**(40,192,915)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,907,270**	**511,537,756**

"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)

	30/06/2016	31/12/2015	30/06/2015
A. OPERATING ACTIVITIES			
1. Operations	**59,223,227**	**(127,289,964)**	**(115,283,528)**
- net profit (loss) for the period (+/-)	49,664,132	9,245,328	39,909,612
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(10,290,841)	(22,725,493)	(1,245,078)
- gains (losses) on hedging activities (-/+)	(316,152)	(65,096)	502,725
- net losses/recoveries on impairment (+/-)	1,225,098	4,616,894	2,422,500
- net adjustments of property and equipment and intangible assets(+/-)	4,129,328	9,729,806	4,276,776
- net provisions for risks and charges and other costs/revenues (+/-)	646,066	572,413	490,538
- taxes, duties and tax credits to be settled (+/-)	13,635,959	6,993,222	22,039,270
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-	-
- other adjustments (+/-)	529,636	(135,657,039)	(183,679,871)
2. Net cash flows from/used in financial assets	**(1,529,908,559)**	**(1,117,770,194)**	**(1,116,670,006)**
- financial assets held for trading	(83,255,774)	88,754,897	97,188,675
- financial assets at fair value through profit or loss	320,973,213	(23,759,147)	(19,296,549)
- financial assets available for sale	1,143,959,439	(2,585,360,252)	(1,774,168,132)
- due from banks: repayable on demand	(108,013,438)	(200,471,017)	(330,060,102)
- due from banks: other	(2,670,993,203)	3,825,822,090	1,699,399,155
- loans to customers	22,370,432	(2,205,497,687)	(789,872,635)
- other assets	(154,949,226)	(17,259,077)	139,583
3. Net cash flows from/used in financial liabilities	**1,256,335,243**	**(468,559,908)**	**150,086,857**
- due to banks: repayable on demand	(321,710,578)	252,903,074	(91,687,412)
- due to banks: other	(496,277,028)	(15,727,873,524)	(11,768,413,739)
- due to customers	2,234,591,433	15,104,563,297	12,250,420,720
- securities issued	118,044,084	(24,735,103)	(85,054,020)
- financial liabilities held for trading	12,649,897	(11,063,716)	(111,676,416)
- financial liabilities at fair value through profit or loss	(315,092,547)	(15,579,620)	(5,151,094)
- other liabilities	24,129,982	(46,774,316)	(38,351,182)
Net cash flows from/used in operating activities (A)	**(214,350,089)**	**(1,713,620,066)**	**(1,081,866,677)**
B. INVESTING ACTIVITIES			
1. Cash flows from	**213,262,503**	**1,900,386,000**	**1,110,368,437**
- sales of equity investments	-	-	-
- dividends on equity investments	-	-	-
- sales of financial assets held to maturity	213,262,503	1,900,386,000	1,110,368,307
- sales of property and equipment	-	-	130
- sales of intangible assets	-	-	-
- sales of subsidiaries and business units	-	-	-
2. Cash flows used in	**28,010,102**	**(159,606,061)**	**(2,452,748)**
- purchases of equity investments	(1,001,343)	-	-
- purchases of financial assets held to maturity	31,090,513	(151,457,372)	-
- purchases of property and equipment	(792,198)	(1,395,213)	(143,744)
- purchases of intangible assets	(1,286,870)	(6,753,476)	(2,309,004)
- purchases of subsidiaries and business units	-	-	-
Net cash flows from/used in investing activities (B)	**241,272,605**	**1,740,779,939**	**1,107,915,689**
C. FINANCING ACTIVITIES			-
- issues/purchases of own shares	-	-	-
- issues/purchases of equity instruments	-	-	7,500,000
- dividend distribution and other	(9,245,328)	(40,192,915)	(47,692,915)
Net cash flows from/used in financing activities C(+/-)	**(9,245,328)**	**(40,192,915)**	**(40,192,915)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**17,677,188**	**(13,033,042)**	**(14,143,903)**

RECONCILIATION

	30/06/2016	31/12/2015	30/06/2015
Cash and cash equivalents at beginning of period (E)	91,044,385	104,077,427	104,007,427
Net increase/decrease in cash and cash equivalents (D)	17,677,188	(13,033,042)	(14,143,904)
Cash and cash equivalents: net foreign exchange difference (F)	-	-	
Cash and cash equivalents at end of period (G)=E+/-D+/-F	108,721,573	91,044,385	89,933,523

Part - A

Accounting policies

PART A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

This section sets out the accounting policies adopted in preparing the interim financial statements at June 30, 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 interim financial statements of Iccrea Banca have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These interim financial statements 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, 2015 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 as from January 1, 2016:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	
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.

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	**IFRS 9 Financial instruments –** The standard will establish criteria for the classification and measurement of financial assets and liabilities, replacing IAS 39, with a view to improving the materiality and utility of the disclosures. The IASB completed the revision of IFRS 9 in July 2014. 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. The European Financial Reporting Advisory Group (EFRAG) updated its "EU endorsement status report", inserting IFRS 9 in the agenda, without, however, specifying an expected endorsement date. The standard approved by the IASB will enter force on January 1, 2018, with early adoption possible.	January 1, 2018
To be determined	**IFRS 15 Revenue from contracts with customers.** The standard replaces IAS 18, IAS 11 and the associated interpretations concerning revenue recognition IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new standard specifies two approaches to revenue recognition: the first provides for recognition “at a point in time”, while the second provides for recognition “over time”. The standard introduces a method for analyzing transactions and define both the timing of recognition and the amount to be recognized. IFRS 15 also includes requirements for accounting for certain costs directly connected with a contract.	Annual reporting periods beginning on or after January 1, 2018.
To be determined	**IFRS 16 Leases** The new standard, which replaces IAS 17, establishes that lessees shall recognize assets and liabilities for a lease.	Annual reporting periods beginning on or after January 1, 2019.

In addition, analytical work is under way to quantify the impact on information systems and the impact on performance and financial position of the application of IFRS 9. The other standards do not affect the Bank’s financial position and performance.

Section 2: General preparation principles

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

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

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

The financial statements and the accompanying explanatory notes set out, for the balance sheet, the figures for the present period as well as comparative figures at December 31, 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 interim financial statements at June 30, 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 June 30, 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). In accordance with Bank of Italy Circular no. 262/2005 – 4th update of December 15, 2015, items without values for the reference period and the previous period are not included. In the income statement and the associated notes, revenues are shown without indicating their sign, while cost figures are shown within parentheses.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income is presented in accordance with the format prescribed by Bank of Italy Circular no. 262/2005 – 4th update December15, 2015. In the items of other comprehensive income net of taxes, the statement of comprehensive income reports changes in the value of assets recognized in the valuation reserves. Items which have zero balances for the year and for the previous year are not reported. Negative amounts are presented between parentheses.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity is presented in accordance with the format prescribed by Bank of Italy Circular no. 262/2005 – 4th update of December 15, 2015. It shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and other shares), capital reserves, earning reserves, valuation reserves for assets or liabilities and the net profit (loss) for the period.

STATEMENT OF CASH FLOWS

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

NOTES TO THE FINANCIAL STATEMENTS

The explanatory notes to the financial statements include the information required by Bank of Italy Circular no. 262/2005 – 4th update of December 15, 2015 and other information required by international accounting standards. To provide as accurate a picture as possible, the titles of sections pertaining to items for which no figures have been reported for either the present period or the previous period are also included.

Section 3: Events subsequent to the reporting date

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

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

Section 4: Other information

CONSOLIDATED TAX MECHANISM OPTION

Starting in 2004, Iccrea Holding and all the Group companies adopted the "consolidated tax mechanism", governed by Articles 117-129 of the Uniform Income Tax Code ("TUIR"), introduced with Legislative Decree 344/2003. It consists of an optional tax regime under which total net income or the tax losses of each subsidiary taking part in the tax consolidation – along with withholdings, deductions and tax credits – are transferred to the parent company. Only one taxable income or tax loss that can be carried forward (the algebraic sum of the parent company's and its participating subsidiaries' income/losses resulting in a single tax payable/receivable) is calculated and attributed to the parent company.

Under this option, the Group companies that participate in the consolidated tax mechanism calculate their tax liabilities and the corresponding taxable income, which is transferred to the parent company. If one or more subsidiaries reports negative taxable income, the tax losses are transferred to the parent company when there is consolidated income for the period or a high probability of future taxable income.

OTHER ISSUES

The financial statements have undergone a limited review by EY 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.

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

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

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

RECOGNITION

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

MEASUREMENT

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

DERECOGNITION

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 Holding SpA and those of other Group companies are managed separately for administrative purposes.

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

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

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

RECOGNITION OF INCOME COMPONENTS

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

12 – Provisions for risks and charges

OTHER PROVISIONS FOR RISKS AND CHARGES

RECOGNITION AND CLASSIFICATION

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

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

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

MEASUREMENT AND RECOGNITION OF INCOME COMPONENTS

The amounts recognized are reviewed at every balance sheet date and are adjusted to reflect the best estimate of the expense required to 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.

DERECOGNITION

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

14 – Financial liabilities held for trading

CLASSIFICATION

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

RECOGNITION

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

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

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

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

15 – Financial liabilities designated as at fair value

CLASSIFICATION

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

RECOGNITION

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

MEASUREMENT

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

DERECOGNITION

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

RECOGNITION OF INCOME COMPONENTS

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

16 – Foreign currency transactions

RECOGNITION

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

MEASUREMENT

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

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

RECOGNITION OF INCOME COMPONENTS

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

17 – Other information

EMPLOYEE TERMINATION BENEFITS

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

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

Therefore, starting January 1, 2007, the Bank:

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

RECOGNITION OF REVENUES

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

Specifically:

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

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

ACCRUALS AND DEFERRALS

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

COSTS FOR LEASEHOLD IMPROVEMENTS

The costs of renovating leased buildings lacking autonomous function or use are conventionally classified among other assets, as provided 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.

With this in mind, the Bank adopted a new framework for valuing derivatives, so-called OIS Discounting, which basically uses:

1. a yield curve based upon the values indicated by the OIS-Eonia curve, from which is derived (through bootstrapping) the maturity curve of the zero-coupon rates to be used to discount the future cash flows of the derivatives;
2. a differentiated set of yield curves based upon the values indicated by the various curves (e.g. 1-month Euribor, 3-month Euribor, 6-month Euribor, etc.), from which is derived (through individual bootstrapping procedures) the respective maturity curves of the forward rates: these rates are used to value the future cash flows of the derivatives. It stands to reason that the individual bootstrapping procedures must be calibrated so as to be consistent with the structure of the zero-coupon rates derived from the procedure indicated in point 1 and so as to reproduce a result consistent with the values in observable markets.

The reason for the this new approach to value derivatives lies in the financial crisis that began in the second half of 2007, which led – among various consequences – to a review of the methodologies for pricing derivatives. Indeed, the classic approach which assumes no arbitrage (developed in the 1970s) – and therefore the existence of a single, risk-free yield curve for lending and/or funding – has become inadequate as a result of the significant emergence of counterparty risk necessitating the employment of mitigation techniques. More specifically, the use of collateral-backed derivatives – to mitigate such risk profile – has become the best practice in the market and this technique means that the valuation of the derivatives must take account of the remuneration processes of the collateral itself.

The new valuation framework incorporates the use of collateral in pricing derivatives.

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

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

The CVA/DVA is estimated using a simplified building block approach, in which the CVA/DVA is obtained as the product of the estimated exposure at default (EAD), weighted by the expected loss (LGD), and the probability of the default occurring (PD).

The exposure at default (EAD) is based on the mark-to-market approach, reduced by the value of the guarantee, if any, at the date the valuation is made without any add-on. The weighted average life of the portfolio is used for each counterparty to determine the probability of default (PD). No estimate of the wrong-way risk is made.

In order to estimate the PD and LGD for financial counterparties, we have adopted an implied market approach, namely they are derived from the listed prices for credit sensitive instruments, such as single-name or sector credit curves.

For transactions in derivatives, the 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.

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 positions unlikely to be repaid** valued on an individual basis: book value approximates fair value;
- **securities issued**:
  - classified L1: price in relevant market;
  - classified L2: mark-to-model valuation discounting cash flows using a set of yield curves distinguished by level of seniority, type of customer and currency of issue;
- **financial liabilities** discounted cash flow model with adjustment based on the issuer risk of the Iccrea Group.

A.4.4 OTHER INFORMATION

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

Quantitative disclosures

A.4.5 FAIR VALUE HIERARCHY

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

	30/06/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	82,423	415,762	367	61,225	341,138	417
2. Financial assets designated as at fair value	-	14,877	-	-	337,911	-
3. Financial assets available for sale	5,212,838	72	376,169	6,594,068	118,810	1,011
4. Hedging derivatives	-	11,657	-	-	10,181	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**5,295,261**	**442,368**	**376,536**	**6,655,293**	**808,040**	**1,428**
1. Financial liabilities held for trading	55,012	434,582	-	137,878	337,737	-
2. Financial liabilities designated as at fair value	116,783	-	-	437,636	-	-
3. Hedging derivatives	-	107,389	-	-	88,035	-
Total	**171,795**	**541,971**	**-**	**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 €430 thousand, while the change attributable to the Debt Value Adjustment was about €16 thousand.

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

	30/06/2016				31/12/2015			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity	1,566,247	1,574,135	-	-	1,779,509	-	-	-
2. Due from banks	34,725,317	-	12,579,092	21,897,875	31,939,294	-	12,579,092	19,817,952
3. Loans to customers	4,055,662	-	1,285,313	2,834,295	4,077,714	-	1,285,313	2,852,454
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**40,347,226**	**1,574,135**	**13,864,405**	**24,732,170**	**37,796,517**	**-**	**13,864,405**	**22,670,406**
1. Due to banks	12,854,979	-	513,808	12,350,094	13,670,457	-	513,808	12,350,094
2. Due to customers	28,257,675	-	281,849	27,965,076	26,029,648	-	281,849	27,965,076
3. Securities issued	4,495,361	3,906,957	650,356	-	4,368,998	3,906,957	650,356	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**45,608,015**	**3,906,957**	**1,446,013**	**40,315,170**	**44,069,103**	**3,906,957**	**1,446,013**	**40,315,170**

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

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

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

PART B

Information on the balance sheet

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

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

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	TOTAL 30/06/2016	TOTAL 31/12/2015
a) Cash	108,722	91,044
b) Demand deposits with central banks	-	-
TOTAL	108,722	91,044

"Cash" includes foreign currency in the amount of €13,825 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

The associated balance-sheet items are classified under financial assets and financial liabilities at fair value (for more information, please see section 3 of assets).

	TOTAL 30/06/2016			TOTAL 31/12/2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. On-balance-sheet assets						
1. Debt securities	80,419	1,215	171	59,227	2,363	213
1.1 structured securities	3,617	1,214	78	3,293	704	213
1.2 other debt securities	76,802	1	93	55,934	1,659	-
2. Equity securities	1,961	68	196	911	63	204
3. Units in collective investment undertakings	-	-	-	976	-	-
4. Loans	-	-	-	-	-	-
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
TOTAL A	82,380	1,283	367	61,114	2,426	417
B. Derivatives						
1. Financial derivatives	43	414,479	-	111	338,712	-
1.1 trading	43	414,479	-	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	43	414,479	-	111	338,712	-
TOTAL (A+B)	82,423	415,762	367	61,225	341,138	417

SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE – ITEM 30

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

3.1 FINANCIAL ASSETS AT FAIR VALUE: COMPOSITION BY TYPE

	TOTAL 30/06/2016			TOTAL 31/12/2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**-**	**14,877**	**-**	**-**	**337,911**	**-**
1.1 structured securities	-	14,877	-	-	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	**-**	**14,877**	**-**	**-**	**337,911**	**-**
COST	**-**	**14,978**	**-**	**-**	**334,989**	**-**

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

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

- 1 credit linked note issued by the Bank in order to avoid unbundling the embedded derivative;
- 1 structured bond issued by the Bank in order to avoid the need to unbundle the embedded derivative (see section 5 of liabilities);

SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

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

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION BY TYPE

	TOTAL 30/06/2016			TOTAL 31/12/2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**5,206,305**	**72**	**-**	**6,587,437**	**118,810**	**-**
1.1 structured securities	-	72	-	51,089	103,272	-
1.2 other debt securities	5,206,305	-	-	6,536,348	15,538	-
2. Equity securities	**6,026**	**-**	**13,085**	**6,632**	**-**	**6,188**
2.1 at fair value	6,026	-	6,900	6,632	-	-
2.2 carried at cost	-	-	6,185	-	-	6,188
3. Units in collective investment undertakings	**507**	**-**	**363,084**	**-**	**-**	**1,011**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**5,212,838**	**72**	**376,169**	**6,594,069**	**118,810**	**7,199**

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS HEDGED SPECIFICALLY

	TOTAL 30/06/2016	TOTAL 31/12/2015
1. Financial assets with specific fair value hedges:	**1,539,590**	**1,645,853**
a) interest rate risk	1,539,590	1,645,853
b) price risk	-	-
c) exchange rate risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2. Financial assets with specific cash flow hedges:	**277,846**	**34,091**
a) interest rate risk	277,846	34,091
b) exchange rate risk	-	-
c) other	-	-
TOTAL	**1,817,436**	**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 30/06/2016				TOTAL 31/12/2015			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	**1,566,247**	**1,574,135**	**-**	**-**	**1,779,509**	**1,794,597**	**-**	**-**
- structured	-	-	-	-	-	-	-	-
- other	1,566,247	1,574,135	-	-	1,779,509	1,794,597	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**1,566,247**	**1,574,135**	**-**	**-**	**1,779,509**	**1,794,597**	**-**	**-**

Key:
FV = fair value
CA = carrying amount

SECTION 6 - DUE FROM BANKS – ITEM 60

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

6.1 DUE FROM BANKS: COMPOSITION BY TYPE

	TOTAL 30/06/2016				TOTAL 31/12/2015			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Claims on central banks	**282,126**				**149,669**			
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Reserve requirement	282,126	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	**34,443,191**				**31,789,625**			
1. Financing	30,244,750				27,851,716			
1.1. Current accounts and demand deposits	417,045	X	X	X	548,482	X	X	X
1.2. Fixed-term deposits	133,557	X	X	X	172,588	X	X	X
1.3. Other financing:	29,694,148	X	X	X	27,130,646	X	X	X
- Repurchase agreements	4,129,397	X	X	X	4,410,782	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	25,564,751	X	X	X	22,719,864	X	X	X
2. Debt securities	4,198,441				3,937,909			
2.1 Structured securities	39,866	X	X	X	57,055	X	X	X
2.2 Other debt securities	4,158,575	X	X	X	3,880,854	X	X	X
TOTAL	**34,725,317**	**-**	**12,579,092**	**21,897,875**	**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 granted to the mutual banks and Group companies secured by securities eligible for use in refinancing transactions (pool collateral) amounted to €22,461 million. The loans include €4,337 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 €25,480 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 €1,402 million, which comes to a net of around €481 million after the haircut is applied.

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

ISIN	Nominal value	Coupon at 31/12/2015	Issue date	Maturity
IT0004942436	1,680,000	3.393%	15/07/2013	01/10/2016
IT0004955792	4,140,000	3.855%	09/08/2013	01/04/2017
IT0004816598	9,750,000	3.267%	10/05/2012	03/04/2017
IT0004813033	14,900,000	3.267%	16/04/2012	03/04/2017
IT0004840549	9,400,000	2.857%	12/07/2012	03/07/2017
IT0004865595	10,800,000	2.527%	23/10/2012	02/10/2017
IT0005074163	1,000,000,000	0.267%	29/12/2014	28/12/2017
IT0004960941	6,960,000	2.657%	16/09/2013	02/01/2018
IT0004894660	22,000,000	1.539%	08/02/2013	02/01/2018
IT0004894280	45,430,000	1.407%	08/02/2013	02/01/2018
IT0005041246	4,170,000	1.825%	28/07/2014	01/01/2019
IT0004982424	35,530,000	2.517%	12/12/2013	02/01/2019
IT0005023202	70,000,000	1.717%	12/05/2014	01/04/2019
IT0004987720	13,140,000	3.547%	15/01/2014	01/04/2019
IT0005055568	4,200,000	1.831%	22/09/2014	01/07/2019
IT0004840531	11,500,000	3.732%	12/07/2012	01/07/2019
IT0004929870	16,720,000	3.418%	24/05/2013	01/10/2019
IT0005073207	8,170,000	1.712%	19/12/2014	01/10/2019
IT0005119653	9,020,000	1.101%	18/06/2015	01/04/2020
IT0005104986	9,160,000	1.154%	01/04/2015	01/04/2020
IT0004936685	15,580,000	2.569%	17/06/2013	01/07/2020
IT0005137481	10,700,000	1.080%	01/10/2015	01/10/2020
IT0004955800	29,180,000	2.817%	09/08/2013	01/10/2020
IT0005161093	22,490,000	0.951%	21/01/2016	01/04/2021
IT0004987712	49,530,000	2.317%	15/01/2014	01/04/2022
IT0004966427	27,910,000	2.567%	14/10/2013	01/04/2022
IT0004987738	55,780,000	2.409%	15/01/2014	01/07/2022
IT0004955784	2,990,000	2.889%	09/08/2013	01/07/2022
IT0004942428	15,080,000	2.699%	15/07/2013	01/07/2022
IT0004840523	11,300,000	3.227%	12/07/2012	01/07/2022
IT0004936693	25,640,000	2.487%	17/06/2013	03/07/2023
IT0005025108	8,000,000	1.739%	26/05/2014	02/01/2024
IT0005025082	51,110,000	1.918%	03/06/2014	02/04/2024
IT0005068678	10,960,000	1.454%	19/11/2014	01/07/2024

IT0004982432	11,170,000	2.619%	12/12/2013	02/01/2025
IT0004920614	21,480,000	3.217%	07/05/2013	01/04/2025
IT0004975881	40,440,000	2.837%	19/11/2013	01/07/2025
IT0004921075	54,950,000	3.097%	07/05/2013	01/07/2025
IT0005158446	16,440,000	1.283%	23/12/2015	01/10/2025
IT0004865603	14,000,000	3.087%	23/10/2012	01/10/2025
IT0004942147	16,740,000	2.617%	15/07/2013	02/01/2026
IT0005043564	5,690,000	1.414%	12/08/2014	04/01/2027
IT0004870785	12,300,000	2.539%	21/11/2012	01/07/2027
IT0004960958	38,930,000	2.981%	16/09/2013	03/01/2028
IT0004920630	23,470,000	2.969%	07/05/2013	03/04/2028
IT0005029670	50,503,000	1.958%	23/06/2014	03/04/2029
IT0005023210	37,500,000	2.497%	12/05/2014	03/04/2029
IT0005059420	7,740,000	1.819%	21/10/2014	02/07/2029
IT0005055576	55,490,000	1.748%	22/09/2014	02/07/2029
IT0005043556	49,820,000	1.718%	12/08/2014	02/07/2029
IT0005041238	55,097,000	1.898%	28/07/2014	02/07/2029
IT0005185514	16,000,000	0.785%	02/05/2016	02/07/2029
IT0005073231	65,410,000	1.447%	19/12/2014	01/10/2029
IT0005068595	63,560,000	1.698%	19/11/2014	01/10/2029
IT0005059396	49,940,000	1.788%	21/10/2014	01/10/2029
IT0005119646	24,990,000	1.387%	18/06/2015	02/01/2030
IT0005104952	23,620,000	1.419%	01/04/2015	02/01/2030
IT0005083701	155,950,000	1.678%	23/01/2015	02/01/2030
IT0005119638	52,470,000	0.997%	18/06/2015	01/04/2030
IT0005114985	88,580,000	1.327%	19/05/2015	01/04/2030
IT0005106783	57,090,000	1.197%	17/04/2015	01/04/2030
IT0005104978	112,280,000	1.307%	01/04/2015	01/04/2030
IT0005158438	155,840,000	1.037%	23/12/2015	01/10/2030
IT0005158420	14,000,000	1.258%	23/12/2015	01/07/2030
IT0005126013	62,070,000	1.222%	12/08/2015	01/07/2030
IT0005126021	22,010,000	1.331%	12/08/2015	01/07/2030
IT0005123457	77,760,000	1.198%	16/07/2015	01/07/2030
IT0005139446	49,210,000	1.040%	21/10/2015	01/10/2030
IT0005137473	93,260,000	1.149%	01/10/2015	01/10/2030
IT0005171563	101,610,000	0.968%	02/03/2016	02/01/2031
IT0005161119	196,160,000	0.999%	21/01/2016	02/01/2031
IT0005161101	24,000,000	1.032%	21/01/2016	02/01/2031
IT0005175549	70,000,000	1.025%	01/04/2016	01/04/2031
IT0005175556	15,000,000	1.025%	01/04/2016	01/04/2031
IT0005185506	86,000,000	0.935%	02/05/2016	01/04/2031
IT0005185555	10,000,000	1.148%	02/05/2016	01/04/2031
IT0005188773	82,000,000	0.972%	31/05/2016	01/04/2031
Total at 30/06/2016	**3,923,490,000**			

The nominal value is reported in euros.

6.2 DUE FROM BANKS: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Loans with specific fair value hedges:	**95,099**	**80,653**
a) interest rate risk	95,099	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	**95,099**	**80,653**

The item consists of fixed-rate treasury deposits hedged with overnight indexed swaps.

SECTION 7 – LOANS TO CUSTOMERS – ITEM 70

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

7.1 LOANS TO CUSTOMERS: COMPOSITION BY TYPE

	TOTAL AT 30/06/2016						TOTAL AT 31/12/2015					
	CARRYING AMOUNT			FAIR VALUE			CARRYING AMOUNT			FAIR VALUE		
		IMPAIRED						IMPAIRED				
	PERFORMING	PURCHASED	OTHER	L 1	L 2	L 3	PERFORMING	PURCHASED	OTHER	L 1	L 2	L 3
Loans	**4,035,894**	**-**	**19,768**				**4,058,096**	**-**	**19,618**			
1. Current accounts	246,055	-	204	X	X	X	153,148	-	198	X	X	X
2. Repurchase agreements	1,389,868	-	-	X	X	X	1,409,005	-	-	X	X	X
3. Medium/long-term loans	118,161	-	19,415	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	2,281,810	-	149	X	X	X	2,369,920	-	148	X	X	X
Debt securities	**-**	**-**	**-**				**-**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X
TOTAL	**4,035,894**	**-**	**19,768**	**-**	**1,285,313**	**2,834,295**	**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.

7.3 LOANS TO CUSTOMERS: ASSETS HEDGED SPECIFICALLY

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Loans with specific fair value hedges:	**27,768**	**30,744**
a) interest rate risk	27,768	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	**27,768**	**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 two fixed-rate loans – one to BCC Solutions in the amount of € 20,522 thousand (outstanding debt including amount accrued at June 30, 2016) and the other to BCC CreditoConsumo in the amount of

€2,459 thousand (outstanding debt at June 30, 2016) – hedged against interest rate risk (fair value hedge).

SECTION 8 - HEDGING DERIVATIVES – ITEM 80

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

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

	FV AT 30/06/2016			NV AT 30/06/2016	FV AT 31/12/2015			NV AT 31/12/2015
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**11,657**	**-**	**924,548**	**-**	**10,181**	**-**	**543,335**
1) Fair value	-	7,124	-	875,000	-	4,875	-	442,700
2) Cash flows	-	4,533	-	49,548	-	5,306	-	100,635
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**11,657**	**-**	**924,548**	**-**	**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 FLOWS		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	-	-	-	-	-	X	-	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	459	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 31/12/2015	**-**	**-**	**-**	**-**	**-**	**459**	**-**	**-**	**-**
1. Financial liabilities	6,665	-	-	X	-	X	4,533	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 31/12/2015	**6,665**	**-**	**-**	**X**	**-**	**-**	**4,533**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X

2. Portfolio of financial assets and liabilities	X	X	X	X	X	-	X	-	-

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

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

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

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

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

9.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Positive adjustments	**1,263**	**932**
1.1 of specific portfolios:	1,263	932
a) loans	1,263	932
b) financial assets available for sale	-	-
1.2 comprehensive	-	-
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) loans	-	-
b) financial assets available for sale	-	-
2.2 comprehensive	-	-
TOTAL	**1,263**	**932**

9.2 ASSETS MACRO-HEDGED AGAINST INTEREST RATE RISK

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Loans	3,131,356	1,678,000
2. Assets available for sale	-	-
3. Portfolio	-	-
TOTAL	**3,131,356**	**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				
B. Joint ventures				
C. Companies subject to significant influence				
1. BCC Beni Immobili S.r.l.	Milan	Rome	47.60	47.60
2. M-Facility S.P.A.	Rome	Rome	37.50	37.50
3. Hi-Mtf S.p.A.	Milan	Milan	25.00	25.00
4. Iccrea BancaImpresa S.p.A.	Rome	Rome	35.41	35.41
5. Accademia BCC S.c.p.A.	Rome	Rome	25.00	25.00
6. Ventis S.r.l.	Milan	Milan	95.00	95.00
7. Bcc Sistemi Informatici	-	Milan	25.00	25.00

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			
B. Joint ventures			
C. Companies subject to significant influence			
1. BCC Beni Immobili S.r.l.	11,600	-	-
2. M-Facility S.p.A.	705	-	-
3. Hi-Mtf S.p.A.	1,250	-	-
4. Iccrea BancaImpresa S.p.A.	249,855	-	-
5. Accademia BCC S.c.p.A.	200	-	-
6. Ventis S.r.l.	1,000		
7. Bcc Sistemi Informatici	1		
TOTAL	**264,611**	**-**	**-**

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

As a result of the loss posted by Iccrea Banca Impresa, the value of the equity pertaining to Iccrea Banca is lower than the carrying amount at June 30, 2016.

No writedown has been recognized as the carrying amount will be realigned as a consequence of the reverse merger with Iccrea Holding with effect from October 1, 2016, as approved by the Extraordinary Shareholders' Meeting of July 12, 2016.

SECTION 11 - PROPERTY AND EQUIPMENT – ITEM 110

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

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

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Owned assets	**7,128**	**7,794**
a) land	-	-
b) buildings	-	-
c) movables	292	311
d) electronic plant	6,344	6,873
e) other	492	610
2 Assets acquired under financial leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) movables	-	-
d) electronic plant	-	-
e) other	-	-
TOTAL	**7,128**	**7,794**

SECTION 12 – INTANGIBLE ASSETS – ITEM 120

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

12.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	TOTAL AT 30/06/2016		TOTAL AT 31/12/2015	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	**7,348**	-	**8,732**	-
A.2.1 Assets carried at cost:	7,348	-	8,732	-
a) internally generated intangible assets	-	-	-	-
b) other assets	7,348	-	8,732	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
TOTAL	**7,348**	-	**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.

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

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

13.1 DEFERRED TAX ASSETS: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
A. Gross deferred tax assets	**7,585**	**9,186**
A1. Loans (including securitizations)	3,047	3,892
A2. Other financial instruments	786	2,213
A3. Goodwill	-	-
A4. Deferred charges	-	-
A5 Property and equipment	-	-
A6. Provisions for risks and charges	2,844	2,351
A7. Entertainment expenses	-	0
A8. Personnel costs	908	730
A9. Tax losses	-	-
A10. Unused tax credits to deduct	-	-
A11. Other	-	-
B. Offsetting with deferred tax liabilities*	**4,221**	**6,046**
C. Net deferred tax assets (A-B)	**3,364**	**3,140**

13.2 DEFERRED TAX LIABILITIES: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
A. Gross deferred tax liabilities	**14,920**	**24,034**
A1. Capital gains tax in installments	2,942	3,513
A2. Goodwill	-	-
A3. Property and equipment	-	-
A4. Financial instruments	11,978	20,521
A5. Personnel costs	-	-
A6. Other	-	-
B. Offsetting with deferred tax assets	**4,221**	**6,046**
C. Net deferred tax liabilities (A-B)	**10,699**	**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 tax assets and liabilities were offset in compliance with the provisions of IAS 12, paragraph 74.

DEFERRED TAXES NOT RECOGNIZED

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

- deferred tax liabilities in respect of the revaluation reserve established in 2003 pursuant to Law 342 of 22/11/2000 net of the special capital gains tax already paid (€11,227 thousand). As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €8.3 million.

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

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Opening balance	**6,573**	**6,543**
2. Increases	**566**	**900**
2.1 Deferred tax assets recognized during the period	566	900
a) in respect of previous periods	-	-
b) due to change in accounting policies	-	-
c) writebacks	-	-
d) other	566	900
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**914**	**870**
3.1 Deferred tax assets derecognized during the period	914	870
a) reversals	914	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	**6,225**	**6,573**

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

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Opening balance	**3,125**	**3,109**
2. Increases	**0**	**16**
3. Decreases	**78**	**-**
3.1 Reversals	78	-
3.2 Transformation into tax credits	-	-
a) from loss for the year	-	-
b) from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**3,047**	**3,125**

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

	TOTAL AT 30/06/2016	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	**571**	**1,144**
3.1 Deferred tax liabilities derecognized during the period	571	1,144
a) reversals	571	1,144
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Closing balance	**2,861**	**3,432**

13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNIZED IN EQUITY)

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Opening balance	**2,613**	**1,060**
2. Increases	**174**	**1,559**
2.1 Deferred tax assets recognized during the period	174	1,559
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	174	1,559
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,427**	**6**
3.1 Deferred tax assets derecognized during the period	1,427	6
a) reversals	1,427	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	**1,360**	**2,613**

13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNIZED IN EQUITY)

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Opening balance	**20,601**	**23,266**
2. Increases	**576**	**-**
2.1 Deferred tax liabilities recognized during the period	576	-
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	576	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**9,118**	**2,665**
3.1 Deferred tax liabilities derecognized during the period	9,118	2,665
a) reversals	9,118	2,665
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**12,059**	**20,601**

13.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2011, 2012, 2013 and 2014 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- the Bank received a notice of liquidation for registration fees on the sale of the "Corporate" business unit to Iccrea BancaImpresa. The payment was made and at the same time an appeal was lodged with the Provincial Tax Commission of Rome as the claims of the tax authorities appear groundless both in law and in administrative practice. On December 15, 2011, with ruling 499/26/11, the Provincial Tax Commission of Rome granted our appeal in full, finding that the Revenue Agency was in clear violation of a specific provision of the uniform registration fee code. As the time limit provided for under Article 38 of Legislative Decree 546/92 had expired, on January 31, 2014 the ruling was notified to the Revenue Agency in enforceable form in order to obtain restitution of the amounts paid. In April 2016, the Revenue Agency fully reimbursed the Bank for registration fees and paid part of the associated interest. Following an enquiry by the Bank, the Agency acknowledged that the Agency was obligated for the remainder of the interest and undertook to make payment as soon as possible.
- 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.

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

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

SECTION 15 - OTHER ASSETS – ITEM 150

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

15.1 OTHER ASSETS: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
Items being processed	39,924	29,284
Failed items	66,556	-
Receivables for future premiums	20,119	20,346
Commissions	28,601	27,908
Receivables due from Parent Company in respect of consolidated tax mechanism	8,922	16,406
Definitive items not allocable to other accounts	70,706	29,372
Tax receivables due from tax authorities and other entities	19,674	20,173
TOTAL	**254,502**	**143,489**

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

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 30/06/2016	TOTAL AT 31/12/2015
1. Due to central banks	**4,600,000**	**6,584,962**
2. Due to banks	**8,254,979**	**7,085,495**
2.1 Current accounts and demand deposits	4,422,520	4,129,096
2.2 Fixed-term deposits	3,304,679	2,890,421
2.3 Loans	525,146	62,551
2.3.1 Repurchase agreements	512,389	51,551
2.3.2 Other	12,757	11,000
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	2,634	3,427
TOTAL	**12,854,979**	**13,670,457**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**513,808**	**395,504**
FAIR VALUE LEVEL 3	**12,350,094**	**13,287,374**
TOTAL FAIR VALUE	**12,863,902**	**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 TLTRO I in conjunction with the transition to TLTRO II. The funding under the latter program falls 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.

SECTION 2 – DUE TO CUSTOMERS – ITEM 20

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

2.1 DUE TO CUSTOMERS: COMPOSITION BY TYPE

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Current accounts and demand deposits	471,628	466,979
2. Fixed-term deposits	2,212	11,359
3. Loans	27,251,585	25,085,078
3.1 Repurchase agreements	26,511,586	24,906,078
3.2 Other	739,999	179,000
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Other payables	532,250	466,232
TOTAL	**28,257,675**	**26,029,648**
FAIR VALUE LEVEL 1	**-**	**-**
FAIR VALUE LEVEL 2	**281,849**	**288,821**
FAIR VALUE LEVEL 3	**27,965,076**	**25,739,054**
TOTAL FAIR VALUE	**28,246,925**	**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.

SECTION 3 – SECURITIES ISSUED – ITEM 30

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

3.1 SECURITIES ISSUED: COMPOSITION BY TYPE

	TOTAL AT 30/06/2016				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	4,492,361	3,906,957	650,356	-	4,368,998	3,703,621	738,415	-
1.1 structured	422,171	437,138	3,761	-	453,174	471,612	5,946	-
1.2 other	4,070,190	3,469,819	646,595	-	3,915,824	3,232,009	732,469	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**4,492,361**	**3,906,957**	**650,356**	**-**	**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 June 30, 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 30/06/2016	TOTAL AT 31/12/2015
1. Securities covered by specific fair value hedges	**488,728**	**519,276**
a) interest rate risk	488,728	519,276
b) exchange rate risk	-	-
c) multiple risks	-	-
2. Liabilities covered by specific cash flow hedges	**48,086**	**48,169**
a) interest rate risk	-	-
b) exchange rate risk	48,086	48,169
c) other	-	-
TOTAL	**536,814**	**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 3 bonds in US dollars issued by the Bank.

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

This item reports financial derivatives held for trading.

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	TOTAL AT 30/06/2016					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	**46,117**	**50,837**	**-**	**-**	**50,837**	**100**	**116**	**-**	**-**	**116**
2. Due to customers	**913**	**813**	**-**	**-**	**813**	**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	**47,030**	**51,650**	**-**	**-**	**51,650**	**135,113**	**137,750**	**-**	**-**	**137,750**
B. Derivatives										
1. Financial derivatives		**3,362**	**434,582**	**-**			**128**	**337,737**	**-**	
1.1 Trading	X	3,362	434,582		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**	**3,362**	**434,582**	**-**	**X**	**X**	**128**	**337,737**	**-**	**X**
TOTAL (A+B)	**X**	**55,012**	**434,582**	**-**	**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 July 2016.

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 30/06/2016					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	**115,082**	**116,783**	**-**	**-**	**117,358**	**427,557**	**437,636**	**-**	**-**	**438,333**
3.1 Structured	115,082	116,783	-	-	X	427,557	437,636	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL	**115,082**	**116,783**	**-**	**-**	**117,358**	**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

"Financial liabilities at fair value" refers to one structured bond issued by the Bank in order to avoid the need to separate the embedded derivative.

SECTION 6 - HEDGING DERIVATIVES – ITEM 60

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

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

	FAIR VALUE AT 30/06/2016			NV AT 30/06/2016	FAIR VALUE AT 31/12/2015			NV AT 31/12/2015
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	**-**	**107,389**	**-**	**4,561,532**	**-**	**88,035**	**-**	**3,537,429**
1) Fair value	-	92,297	-	4,296,687	-	84,596	-	3,504,987
2) Cash flows	-	15,092	-	264,845	-	3,439	-	32,442
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**107,389**	**-**	**4,561,532**	**-**	**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	72,576	-	-	-	-	X	15,092	X	X
2. Loans	5,029	-	-	X	-	X	-	X	X
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	3,627	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
TOTAL ASSETS AT 30/06/2016	**77,605**	**-**	**-**	**-**	**-**	**3,627**	**15,092**	**-**	**-**
1. Financial liabilities	11,065	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
TOTAL LIABILITIES AT 30/06/2016	**11,065**	**-**	**-**	**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 2 fixed-rate loans to BCC Solutions and BCC CreditoConsumo 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 30/06/2016	TOTAL AT 31/12/2015
Amounts due to social security institutions and State	4,377	6,967
Amounts available to customers	31,856	15,559
Items being processed	55,196	23,828
Securities to be settled	493	5,026
Definitive items not allocable to other accounts	7,726	27,123
Liabilities for future premiums	10,575	11,335
Payables due to Parent Company in respect of consolidated tax mechanism	9,700	7,451
Tax payables due to tax authorities	6,451	10,816
Payables due to employees	6,941	5,065
Invoices to be paid and to be received	73,163	40,728
Failed purchase transactions	12,972	9,226
Illiquid portfolio items	3,643	9,047
TOTAL	**223,093**	**172,171**

SECTION 11 - EMPLOYEE TERMINATION BENEFITS – ITEM 110

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

11.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
A. Opening balance	**12,769**	**13,740**
B. Increases	**761**	**208**
B.1 Provisions for the period	-	208
B.2 Other increases	761	-
C. Decreases	**249**	**1,179**
C.1 Benefit payments	249	1,155
C.2 Other decreases	-	24
D. Closing balance	**13,281**	**12,769**
Total	**13,281**	**12,769**

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 €12,352 thousand (€12,586 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 1.25%;
- **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 at December 31, 2015 for the euro area, with an average duration comparable to the group being assessed.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES – ITEM 120

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

12.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1 Company pension plans	**-**	**-**
2. Other provisions for risks and charges	**6,850**	**6,352**
2.1 legal disputes	4,965	4,802
2.2 personnel expenses	727	688
2.3 other	1,158	862
TOTAL	**6,850**	**6,352**

The sub-item "Legal disputes" includes €2,942 thousand for revocatory actions in bankruptcy and €2,023 thousand for litigation and disputes. The sub-item "personnel expenses" includes seniority bonuses for employees.

12.4 PROVISIONS - OTHER

	OPENING BALANCE	USES	PROVISIONS	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
Revocatory actions	2,947	-	-	2,947	2,947
Litigation and disputes	2,717	180	639	3,176	2,717
Loyalty bonus	688	17	56	727	688
CLOSING BALANCE	**6,352**	**197**	**695**	**6,850**	**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).

SECTION 13 - REDEEMABLE SHARES – ITEM 140

There were no such shares as of the reporting date.

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

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

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

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

	ORDINARY	OTHER
A. Shares at the start of the year	**420,000**	**-**
- fully paid	-	-
- partially paid	420,000	-
A.1 Treasury shares (-)	-	-
A.2 Shares in circulation: opening balance	**420,000**	**-**
B. Increases	**-**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**420,000**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	-	-
- fully paid	-	-
- partially paid	-	-

On April 21, 2016, a total dividend of €9,030,000, equal to €21.50 per share, was distributed.

14.3 SHARE CAPITAL: OTHER INFORMATION

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

14.4 EARNINGS RESERVES: OTHER INFORMATION

Reserves amount to €106,926 thousand and include: the legal reserve (€48,201 thousand), the reserve established in the articles of association (€205 thousand), the extraordinary reserve (€48,639 thousand), a reserve (€1,843 thousand) generated following the transfer of the Corporate business unit to Iccrea BancaImpresa in 2007, a negative reserve (€236 thousand) from the merger of BCC Multimedia, a positive reserve (€162 thousand) generated following the transfer of properties to BCC Beni Immobili; a positive reserve (€234 thousand) generated by the transfer of the "branch services" business unit to Banca Sviluppo. Pursuant to the articles of association, at least three-tenths of net profit for the period is allocated to the legal reserve until such reserve shall be equal to one-fifth of share capital, while the remaining seven-tenths are available for distribution to shareholders and the earmarking of a part of profit that shall be available to the Board of Directors for charity and publicity. The legal reserve has reached one-fifth of share capital.

AVAILABILITY AND FORMATION OF EQUITY RESERVES

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

	AMOUNT	POSSIBLE USES (*)	AVAILABLE AMOUNT	SUMMARY OF USES IN LAST THREE YEARS	
				FOR LOSS COVERAGE	OTHER
Share capital	216,913				
Reserves: a) legal reserve	48,201	B	48,201		
b) reserve in articles of association	205	A – B – C	205		
c) extraordinary reserve	48,639	A – B – C	48,639		
d) other reserves	82,002	A – B – C	2,002		
e) FTA reserve	15,378	A – B – C	15,378		
Valuation reserves: a) financial assets available for sale	26,758		–		
b) cash flow hedges	1,165		–		
c) actuarial gains (losses) on defined-benefit plans	(1,937)				
Valuation reserves: (Law 342 of 22/11/2000)	47,866	A – B – C (**)	47,866		
Net profit for the period	49,664				
Total	**534,854**				

(*) 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.

OTHER INFORMATION

1. GUARANTEES ISSUED AND COMMITMENTS

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1) Financial guarantees issued	**364,226**	**455,781**
a) Banks	358,193	385,253
b) Customers	6,033	70,528
2) Commercial guarantees issued	**42,803**	**50,187**
a) Banks	42,803	50,187
b) Customers	-	-
3) Irrevocable commitments to disburse funds	**3,560,713**	**2,858,302**
a) Banks	2,376,768	2,011,799
i) certain use	2,090,034	1,723,815
ii) uncertain use	286,734	287,984
b) Customers	1,183,945	846,503
i) certain use	1,183,945	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	**18,220**	**18,057**
6) Other commitments	**-**	**117,193**
TOTAL	**4,000,962**	**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.

Part C

Information on the income statement

PART C – INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST – ITEMS 10 AND 20

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

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

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

		DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
1	Financial assets held for trading	554	-	2,602	3,155	5,202
2	Financial assets available for sale	22,467	-	-	22,467	32,143
3	Financial assets held to maturity	9,152	-	-	9,152	22,242
4	Due from banks	28,065	17,805	-	45,870	68,405
5	Loans to customers	-	42,099		42,099	14,950
6	Financial assets at fair value	1,308	-	-	1,308	2,601
7	Hedging derivatives	X	X	-	-	5,692
8	Other assets	X	X	1,535	1,535	-
	TOTAL	**61,546**	**59,904**	**4,137**	**125,587**	**151,235**

1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

		DEBTS	SECURITIES	OTHER TRANSACTIONS	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
1.	Due to central banks	(3,654)	X	-	(3,654)	(4,911)
2.	Due to banks	(10,007)	X	-	(10,007)	(14,638)
3.	Due to customers	(955)	X	-	(955)	(9,780)
4.	Securities issued	X	(55,436)	-	(55,436)	(65,569)
5.	Financial liabilities held for trading	(1,668)	-	-	(1,668)	(122)
6.	Financial liabilities carried at fair value	-	(5,630)	-	(5,630)	(9,111)
7.	Other liabilities and provisions	X	X	(16,832)	(16,832)	-
8.	Hedging derivatives	X	X	(815)	(815)	-
	TOTAL	**(16,283)**	**(61,066)**	**(17,647)**	**(94,996)**	**(104,130)**

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

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

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
a) guarantees issued	**102**	**165**
b) credit derivatives	**-**	**-**
c) management, intermediation and advisory services:	**10,871**	**14,335**
1. trading in financial instruments	4,268	5,507
2. foreign exchange	91	97
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	4,067	4,367
5. depository services	-	-
6. securities placement	1,374	3,154
7. order collection and transmission	573	669
8. advisory services	498	541
8.1 concerning investments	-	-
8.2 concerning financial structure	498	541
9. distribution of third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other	-	-
d) collection and payment services	**22,905**	**22,478**
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	**125**	**121**
j) other services	**139,115**	**150,951**
TOTAL	**173,118**	**188,050**

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
a) guarantees received	**-**	**-**
b) credit derivatives	**-**	**-**
c) management and intermediation services:	**(4,178)**	**(5,574)**
1. trading in financial instruments	(634)	(1,608)
2. foreign exchange	(32)	(40)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(2,238)	(1,553)
5. placement of financial instruments	(1,274)	(2,372)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**(2,894)**	**(2,931)**
e) other services	**(106,118)**	**(114,940)**
TOTAL	**(113,190)**	**(123,444)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

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

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		TOTAL AT 30/06/2016		TOTAL AT 30/06/2015	
		DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS	DIVIDENDS	INCOME FROM UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS
A.	Financial assets held for trading	22	-	6	-
B.	Financial assets available for sale	278	-	203	-
C.	Financial assets at fair value	-	-	-	-
D.	Equity investments	-	X	-	X
	TOTAL	**300**	**-**	**209**	**-**

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	**729**	**12,992**	**(359)**	**(963)**	**12,399**
1.1 Debt securities	718	12,793	(67)	(904)	12,540
1.2 Equity securities	11	188	(288)	(58)	(147)
1.3 Units in collective investment undertakings	-	11	(4)	(1)	6
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**(843)**	**-**	**(843)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	(843)	-	(843)
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**5,250**
4. Derivatives	**73,189**	**80,334**	**(92,070)**	**(66,920)**	**(9,390)**
4.1 Financial derivatives:	73,189	80,334	(92,070)	(66,920)	(9,390)
- on debt securities and interest rates	70,622	74,497	(90,955)	(59,715)	(5,551)
- on equity securities and equity indices	323	118	(205)	(341)	(105)
- on foreign currencies and gold	X	X	X	X	(3,923)
- other	2,244	5,719	(910)	(6,864)	189
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**73,918**	**93,326**	**(93,272)**	**(67,883)**	**7,416**

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

The item reports the overall difference in respect of:

a) the outcome of the measurement of fair value hedges;
b) the outcome of the measurement of the financial assets and liabilities covered by fair value hedges;
c) the positive or negative differences and margins on hedge derivatives other than those reported under interest.

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

		TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
A.	**Gain on:**		
A.1	Fair value hedges	3,159	964
A.2	Hedged financial assets (fair value)	15,334	10,267
A.3	Hedged financial liabilities (fair value)	12	2,553
A.4	Cash flow hedges	-	3,093
A.5	Assets and liabilities in foreign currencies	912	-
TOTAL INCOME ON HEDGING ACTIVITIES (A)		**19,417**	**16,877**
B.	**Loss on:**		
B.1	Fair value hedges	(13,205)	(12,028)
B.2	Hedged financial assets (fair value)	(2,146)	(1,286)
B.3	Hedged financial liabilities (fair value)	(2,677)	(325)
B.4	Cash flow hedges	(1,073)	(189)
B.5	Assets and liabilities in foreign currencies	-	(3,550)
TOTAL EXPENSE ON HEDGING ACTIVITIES (B)		**(19,101)**	**(17,379)**
C.	**NET GAIN (LOSS) ON HEDGING ACTIVITIES (A - B)**	**316**	**(503)**

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 3 U.S. dollar bonds issued by the Bank using cross currency interest rate swaps;
- hedges of loans to BCC Solutions and BCC CreditoConsumo 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.

SECTION 6 - GAIN (LOSS) ON DISPOSAL OR REPURCHASE – ITEM 100

This reports the positive or negative balances between the gains and losses realized with the sale of financial assets or liabilities other than those held for trading or designated as at fair value.

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	TOTAL AT 30/06/2016			TOTAL AT 30/06/2015		
	GAINS	LOSSES	NET GAIN (LOSS)	GAINS	LOSSES	NET GAIN (LOSS)
Financial assets						
1. Due from banks	3	(43)	(40)	30	(1)	29
2. Loans to customers	-	-	-	3,663	-	3,663
3. Financial assets available for sale	65,739	(12,460)	53,279	28,207	(5,925)	22,283
3.1 Debt securities	33,584	(12,460)	21,124	28,207	(5,925)	22,283
3.2 Equity securities	32,155	-	32,155	-	-	-
3.3 Units in collective investment undertakings	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
TOTAL ASSETS	**65,742**	**(12,503)**	**53,239**	**31,900**	**(5,926)**	**25,975**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	285	(2,625)	(2,340)	77	(4,547)	(4,471)
TOTAL LIABILITIES	**285**	**(2,625)**	**(2,340)**	**77**	**(4,547)**	**(4,471)**

Gains on the disposal of equity securities regard the disposal of the Bank's holding as a Principal Member in Visa Europe. The transaction closed on June 22, 2016 with the sale of Visa Europe to Visa Inc. The Bank received €23.3 million in cash at closing, €6.8 million in shares and €2.0 million in deferred cash, for a total of €32.1 million.

SECTION 7 - NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE – ITEM 110

This section reports the positive or negative balance between gains and losses on financial assets/liabilities at fair value and the operationally connected instruments for which the fair value option has been exercised, including the impact of the fair value measurement of such instruments (see also sections 3 of assets and 5 of liabilities).

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

	CAPITAL GAINS (A)	PROFITS ON REALIZATION (B)	CAPITAL LOSSES (C)	LOSSES ON REALIZATION (D)	NET GAIN (LOSS) [(A+B) - (C+D)]
1. Financial assets		**-**	**(506)**	**(581)**	**(1,087)**
1.1 Debt securities	-	-	(506)	(581)	(1,087)
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**2,428**	**2,648**	**-**	**-**	**5,076**
2.1 Debt securities	2,428	2,648	-	-	5,076
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Financial and credit derivatives	**-**	**-**	**(2,401)**	**-**	**(2,401)**
TOTAL AT 30/06/2016	**2,428**	**2,648**	**(2,907)**	**(581)**	**1,588**

SECTION 8 - NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

This item reports the balance of writedowns and writebacks in respect of the impairment of loans to customers and banks, financial assets available for sale, financial assets held to maturity and other financial transactions.

8.1 NET LOSSES/RECOVERIES ON IMPAIRMENT: COMPOSITION

	LOSSES (1)			RECOVERIES (2)				TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**2,923**	**-**	**-**	**2,923**	**117**
- Loans	-	-	-	-	2,923	-	-	2,923	117
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	**-**	**(453)**	**(112)**	**388**	**309**	**-**	**197**	**329**	**739**
Impaired receivables acquired									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other receivables									
- Loans	-	(453)	(112)	388	309	-	197	329	739
- Debt securities	-	-	-	-	-	-	-	-	-
C. TOTAL	**-**	**(453)**	**(112)**	**388**	**3,232**		**197**	**3,252**	**856**

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 mainly relate to the collection of the receivable from the Icelandic bank Landsbanki Island hf., which was fully written off in previous periods.

8.2 NET LOSSES/RECOVERIES ON IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

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

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

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

8.4 NET LOSSES/RECOVERIES ON IMPAIRMENT OF OTHER FINANCIAL INSTRUMENTS: COMPOSITION

	LOSSES (1)			RECOVERIES (2)				TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITEOFFS	OTHER	PORTFOLIO	A	B	A	B		
A. Guarantees issued	-	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to distribute funds	-	-	-	-	-	-	-	-	-
D. Others	-	(1,349)	-	-	78	-	-	(1,271)	2,618
E. TOTAL		**(1,349)**			**78**			**(1,271)**	**2,618**

"Losses" reports amounts associated with the mutual bank deposit guarantee fund for the division and the commitments relating to the requests for repayment made to the fund and already authorized by the Bank of Italy.

SECTION 9 - ADMINISTRATIVE EXPENSES – ITEM 150

In addition to expenses in respect of employees, personnel expenses include:

- expenses for Bank employees seconded to other companies and the related recovery of costs;
- expenses in respect of persons hired on atypical contracts;
- reimbursements of expenses for employees of other companies seconded to the Bank;
- the compensation of directors and members of the Board of Auditors.

9.1 PERSONNEL EXPENSES: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
1) Employees	**(30,148)**	**(29,905)**
a) wages and salaries	(20,970)	(20,573)
b) social security contributions	(5,391)	(5,569)
c) termination benefits	(573)	(508)
d) pensions	-	-
e) allocation to employee termination benefit provision	(158)	(75)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(1,624)	(1,862)
- defined contribution	(1,624)	(1,862)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(1,432)	(1,317)
2) Other personnel	**(5)**	**(19)**
3) Board of Directors and members of Board of Auditors	**(4)**	**(463)**
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	**4,378**	**249**
6) Reimbursement of expenses for third-party employees seconded to the Company	**(675)**	**(590)**
TOTAL	**(26,454)**	**(30,729)**

9.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
Information technology	**(33,322)**	**(31,781)**
Property and movables	**(402)**	**(3,907)**
Rental and fees	(402)	(3,642)
Ordinary maintenance	-	(169)
Security	-	(96)
Goods and services	**(3,641)**	**(7,078)**
Telephone and data transmission	(745)	(1,769)
Postal	(1,983)	(2,491)
Asset transport and counting	(241)	(19)
Electricity, heating and water	(129)	(85)
Transportation	(272)	(576)
Office supplies and printed materials	(271)	(2,014)
Subscriptions, magazines and newspapers	-	(123)
Professional services	**(4,525)**	**(6,277)**
Professional fees	(2,812)	(2,878)
Audit fees	(77)	(45)
Legal and notary costs	(730)	(818)
Court costs, information and title searches	(1)	(11)
Insurance	(257)	(732)
Administrative services	(647)	(1,793)
Advertising and entertainment	**(716)**	**(505)**
Association dues	**(1,368)**	**(2,181)**
Charity	-	-
Other	**(10,124)**	**(2,366)**
Indirect taxes and duties	**(15,741)**	**(5,954)**
Stamp duty	(6,543)	(5,953)
Long-term loan tax - Pres. Decree 601/73		(1)
Municipal property tax	-	-
Duties on stock exchange contracts	(29)	-
Other indirect taxes and duties*	(9,169)	-
TOTAL	**(69,839)**	**(60,049)**

* The item includes the ordinary contribution to the National Resolution Fund in the amount of €9,146 thousand

During the period, the Bank undertook charity work, using the provision established by the Board of Directors for this purpose in the total amount of €87 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 30/06/2016	TOTAL AT 30/06/2015
Net provisions for risks and charges	**(526)**	**(150)**

SECTION 11 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT – ITEM 170

This section reports the balance of writedowns and writebacks of property and equipment.

11.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	DEPRECIATION (A)	WRITEDOWNS FOR IMPAIRMENT (B)	WRITEBACKS (C)	NET ADJUSTMENT (A + B - C)
A. Property and equipment				
A.1 owned	(1,459)	-	-	(1,459)
- operating assets	(1,459)	-	-	(1,459)
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
TOTAL	**(1,459)**			**(1,459)**

SECTION 12 - NET ADJUSTMENTS OF INTANGIBLE ASSETS – ITEM 180

This section reports the balance of writedowns and writebacks of intangible assets.

12.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	AMORTIZATION (A)	WRITEDOWNS FOR IMPAIRMENT (B)	WRITEBACKS (C)	NET ADJUSTMENTS (A + B - C)
A. Intangible assets	(2,671)	-	-	(2,671)
A.1 owned	(2,671)	-	-	(2,671)
- generated internally by the Bank	-	-	-	
- other	(2,671)	-	-	(2,671)
A.2 acquired under finance leases	-	-	-	
TOTAL	**(2,671)**			**(2,671)**

SECTION 13 – OTHER OPERATING EXPENSES/INCOME – ITEM 190

This item reports expenses and income not allocable to other accounts.

13.1 OTHER OPERATING EXPENSES: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
Other charges	(82)	(77)
Total	**(82)**	**(77)**

13.2 OTHER OPERATING INCOME: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
Property rental income		18
Recoveries:		
- Stamp duty	5,178	4,788
- Tax on loan transactions	17	16
Revenues from Milano Finanza Web services	281	339
Revenues for personnel administration services	287	328
Insourcing revenues	3,362	3,398
Other income	1,963	1,122
TOTAL	**11,088**	**10,009**

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

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

SECTION 15 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 220

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

SECTION 16 - VALUE ADJUSTMENTS OF GOODWILL – ITEM 230

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

SECTION 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

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

SECTION 18 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 260

The item reports the tax liability – equal to the balance of current taxes and deferred taxes – in respect of income for the period.

18.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

		TOTAL AT 30/06/2016	TOTAL AT 30/06/2015
1.	Current taxes (-)	(13,603)	(22,626)
2.	Changes in current taxes from previous periods (+/-)	(33)	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 (+/-)	(348)	230
5.	Change in deferred tax liabilities (+/-)	572	572
6.	**INCOME TAXES FOR THE PERIOD (-) (-1+/-2+3+3 bis+/-4+/-5)**	**(13,412)**	**(21,237)**

Summary:	
I.R.E.S.	(9,700)
I.R.A.P.	(3,903)
Recovery of I.R.E.S. in respect of 4% of intercompany interest expense	-
Total current taxes	**(13,603)**

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

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

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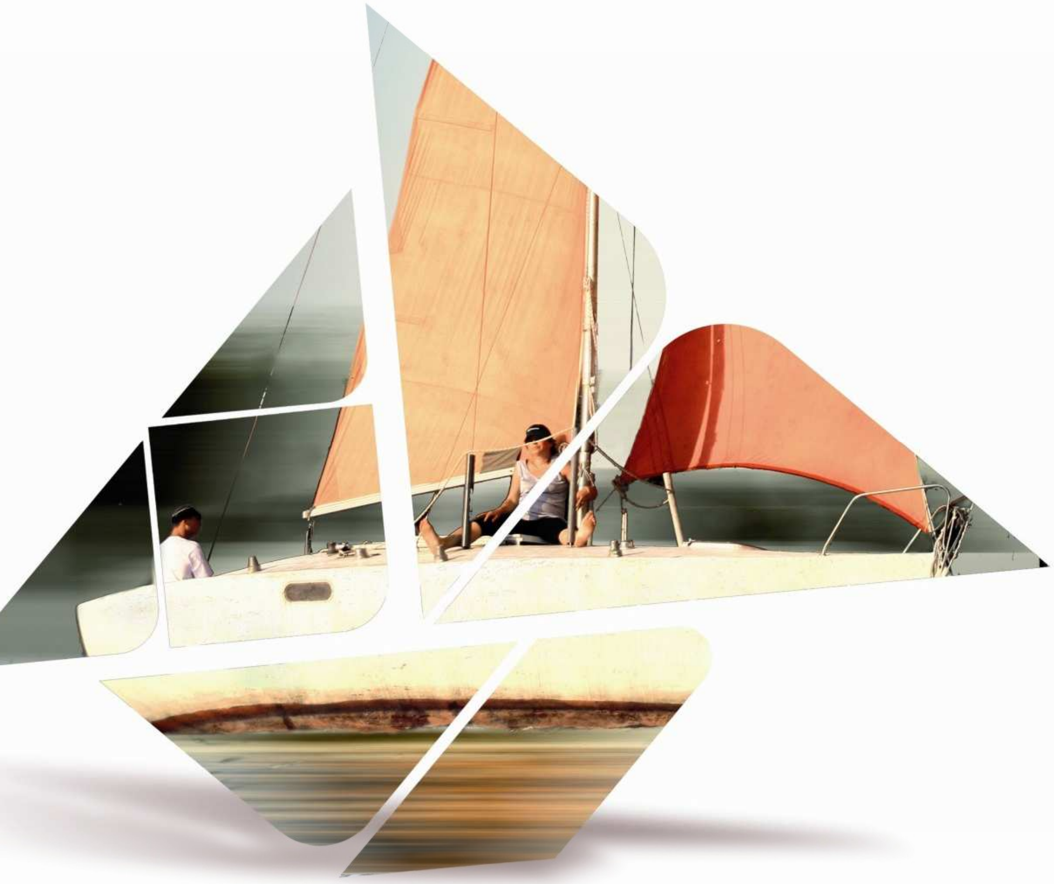
PART D

Comprehensive income



PARTE D – REDDITIVITÀ COMPLESSIVA

PART D – COMPREHENSIVE INCOME

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10.	**Net profit (loss) for the period**	**X**	**X**	**49,664,132**
	Other comprehensive income not recyclable to profit or loss			**-**
20.	**Property and equipment**	**-**	**-**	**-**
30.	**Intangible assets**	**-**	**-**	**-**
40.	**Defined-benefit plans**	**(633,376)**	**174,178**	**(459,198)**
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:**	**2,982,517**	**(986,318)**	**1,996,199**
	a) fair value changes	(12,284,960)	4,062,636	(8,222,324)
	b) reversal to income statement	15,267,477	(5,048,954)	10,218,523
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	**(24,875,209)**	**8,101,908**	**(16,773,301)**
	a) fair value changes	(5,512,287)	1,698,590	(3,813,697)
	b) reversal to income statement	(19,362,922)	6,403,318	(12,959,604)
	- impairment adjustments	-	-	-
	- gain/loss on realization	(19,362,922)	6,403,318	(12,959,604)
	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**	**(22,526,068)**	**7,289,768**	**(15,236,300)**
140	**Comprehensive income (item 10+130)**	**(22,526,068)**	**7,289,768**	**34,427,832**

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

ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

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

In order to increase the effectiveness of risk governance, enhance the efficiency of the overall internal control system and respond to developments in the regulatory and market environment and the organizational, operational and corporate arrangements of the Group, in 2015 a revision of governance arrangements and the associated organizational structure of the second-level control units (Risk Management, Compliance and Anti-Money Laundering) was completed in accordance with the 15th update of Circular 263/2006 of the Bank of Italy.

More specifically, in a continuance and completion of previous initiatives with Group Risk Management, the new organizational effort has centralized functional responsibilities for operational risks, compliance risk and money-laundering risk and risk management of all the Group's banks and financial companies, with the establishment of the CCO area and the CRO area. In compliance with prudential requirements, at the company level these functions report directly to the board of directors of each subsidiary (with the exception of BCC Gestione Crediti).

The CRO area is the Group's organizational structure responsible for second-level control activities and operates through the functional assignment of duties to the Parent Company with regard to risk governance. The CRO area has therefore taken on functional responsibility for the duties of the operational risk, compliance risk, money-laundering risk and risk management units of all the Group's banks and financial companies. The unit is headed by the Chief Risk Officer, who reports to the top management of the Parent Company for areas under his purview, offering an integrated and summary view of the risks assumed and managed by the individual companies and the Group as a whole.

The CRO area is structured into units that operate within both the Parent Company and at the level of each subsidiary. The organizational implementation of the governance 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 prudential regulations the effectiveness of second level controls in relation to management requirements and the applicable regulatory context.

At the Parent Company, the CRO area is organized into four units:

- Risk Integration & Capital Adequacy;
- Financial Risk Management;
- Credit Risk Management;
- Operational & IT Risk Management.

Under the governance arrangements, the units at the subsidiaries 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 Financial Risk Management unit of the Parent Company for Iccrea Banca and BCC Risparmio e Previdenza;
- the Credit Risk Management unit of the Parent Company for Iccrea BancaImpresa, Banca Sviluppo and BCC Credito Consumo;

- the Risk Management unit of Iccrea BancaImpresa for BCC Factoring and BCC Lease.

The Operational & IT Risk Management 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.

MAIN DUTIES OF THE CRO AREA

The primary responsibilities of the CRO area include participating in the definition, development and any corrective maintenance of the framework for risk assumption and management, monitoring developments in the exposure to financial and credit risks 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 risk assumption and management in its sphere of responsibility, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal requirements;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP;

The framework for risk assumption and management consists of organizational units and corporate processes (operational, administrative and business), including line controls, support applications, risk governance policies (policies, limits and powers), and risk measurement and assessment methods and criteria;

- develops the Risk Appetite Framework and its operational implementation, the Risk Appetite Statement, in accordance with applicable internal and external regulations;
- monitors developments in the exposure to the different forms of risk in relation to developments in markets and the operation of the internal management system. In this area, it:
  - develops risk measurement and assessment methods and models;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the risk assumption and management framework;
  - 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 risk assumption and management framework in the areas 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;
  - assess 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.

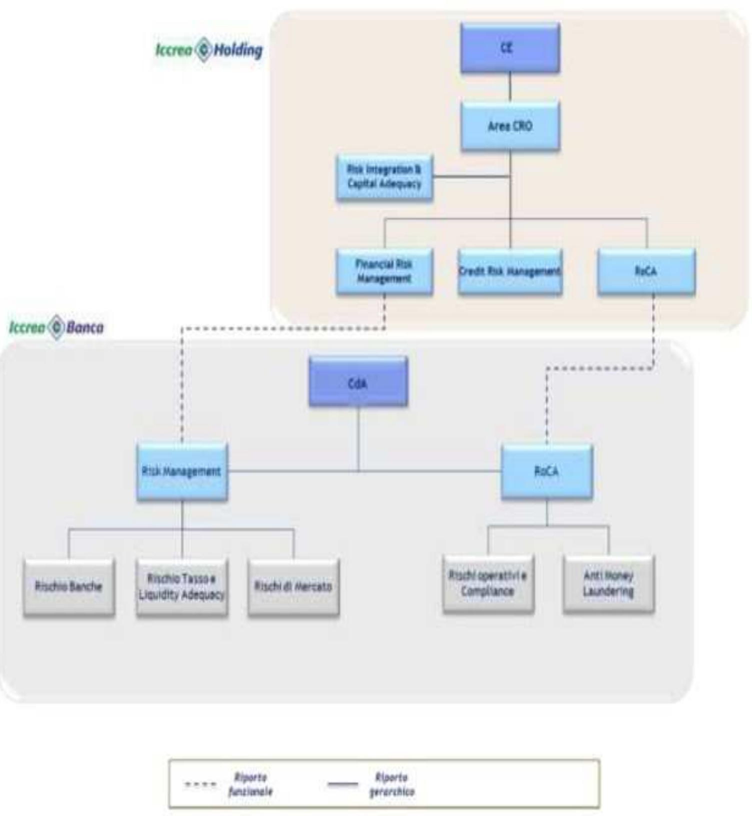
STRUCTURE OF GROUP RISK MANAGEMENT

In the Iccrea Banking Group, a Risk Management unit was established within the Financial Risk Management structure to manage the main forms of financial risk. It is based at Iccrea Banca, where Group Finance operations are also managed. The Risk Management unit is structured into the following functions: Market Risks; Interest Rate Risk and Liquidity Adequacy; and Bank Risk.

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.).

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STRESS TESTING

In order to ensure the dynamic monitoring and management of risk, the Group has implemented a stress testing system.

Stress testing is an integral part of the risk management system. It is used in the internal ICAAP/ILAAP capital adequacy and liquidity processes, as well as in the governance of company developments, capital planning, financial planning and RAS. The methods adopted are based on the main risk factors.

Stress testing can be carried out at the level of the Group, business unit or portfolio, and the scenarios used are supervised by Group Risk Management.

Since its creation, the stress testing framework has undergone updating both of the methods deployed and its integration with operations.

SECTION 1 – CREDIT RISK

Qualitative disclosures

1. GENERAL ASPECTS

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

For an intermediary, credit risk can be:

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

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

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

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

Iccrea Banca's credit activities were focused on:

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

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

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Organizational units involved

The organizational unit of Iccrea Banca 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 and Retail Credit unit carries out the activities associated with lending to this category of customers within the Iccrea Banking Group and monitors credit positions. It also performs activities regarding the processing of bankers' drafts issued by Iccrea Banca S.p.A. and the granting of operating credit and loans to bank counterparties, as well as managing substandard exposures and registering/controlling loan positions in the information system.

In general, the Lending department ensures the regular performance of the various phases of the credit process, approving applications within the scope of its powers and ensuring the adequacy of the line controls in the operations for which it is responsible.

Within the Risk Management unit, 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.

Inspections are performed by the Controls unit.

Segmentation of credit exposures

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).

Credit process

The credit process is organized into the following phases:

- *Start of application processing:* collection of data need to start the lending/loan revision process with a specific counterparty;
- *Processing*: assessment of the creditworthiness of the counterparty and the feasibility of the transaction;
- *Decision proposal*: preparation and formalization of the decision proposal to be submitted to the decision-making body;
- *Authorization*: approval of the decision by the decision-making body and start of authorized operations;
- *Monitoring*: tracking of specific performance indicators (*performance controls*) and structural assessment of the overall risk profile of the borrower (*performance monitoring*).

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

Assessment framework and monitoring

The *assessment framework* is based on the best practices used by the rating agencies and is conducted on the basis of an analysis of the financial soundness of the potential borrower, taking into account quantitative data in the form of financial and operational indicators and qualitative information on management's standing, together with forecasts for medium/long-term transactions. More specifically, the assessment framework is made up of two "**modules**", called **Structural** and **Performance.** The assessment of counterparty creditworthiness begins with an analysis of the information drawn from the financial statements and explanatory notes, developed with forward-looking valuation techniques (the Structural Module). The partial assessment thus obtained is supplemented with quantitative and qualitative information from internal sources (the Performance Module).

The tools used during the loan processing stage differ according to the type of counterparty and the product/service requested, taking into consideration, in the case of existing customers, developments in past and/or present transactions.

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

Risk Limits

The credit risk management policy is defined through a system of risk appetite limits specified at the individual counterparty level.

A *Risk Ceiling* is specified for each counterparty. It represents the overall size of the exposure to that counterparty, and includes all transactions with the Bank, governed by a structure of delegated powers for both loans and operating credit, which represent the specific applications. The Risk Ceiling takes account of the credit risk mitigation effects of guarantees and cannot exceed the risk appetite.

The Risk Ceiling is monitored on a daily basis through the risk profile, which is the algebraic sum of the lines of credit granted, with the total being the Risk Ceiling. Two warning thresholds are also specified, which if exceeded trigger the transmission of a report from Risk Management to the Loans department and/or senior management for corrective action and subsequent reporting to the Board of Directors.

Monitoring systems

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

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

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

2.3 RISK MITIGATION TECHNIQUES

A series of measures have been developed to upgrade the Bank's organizational and IT resources in order to create effective structural and process arrangements that ensure full compliance with the organizational, financial and legal requirements under the new regulations and govern the entire process of acquiring, assessing, controlling and realizing instruments used to mitigate credit risk.

Guarantees eligible for mitigation of credit risk are specified in an "analytic guarantee chart", which provides a specific description of all the information necessary for correct use of the security. The types of eligible guarantee must be approved by the Board of Directors.

Iccrea Banca also acquired financial guarantees in respect of "collateral pool" operations backing credit facilities for mutual banks. Pursuant to the provisions of Legislative Decree 170/2004, these guarantees are included, under the rules set out in supervisory instructions, among eligible credit risk mitigation techniques (see Bank of Italy Circular no. 285/2013, Part 2, Chapter 5). In 2014, the Iccrea Banking Group began the process of replacing the use of the "simple approach" in mitigating credit risk when measuring financial collateral with the "comprehensive approach", which is more in line with the Bank's operations. The Bank began applying this approach following the supervisory report of December 2014.

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 department took rapid steps to use 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.

On the operational front, risk mitigation is implemented with the use of ISDA agreements for derivatives transactions and Global Master Repurchase Agreements (GMRAs) for direct repurchase transactions with market counterparties. Both of these protocols are used to manage and mitigate credit risk and, in compliance with the conditions established under supervisory regulations, enable the reduction of capital requirements.

As regards OTC derivatives business, the Bank continued to enter into Credit Support Annex (CSA) arrangements with its main financial counterparties. At June 30, 2016 credit exposures in respect of transactions in derivatives were covered by 199 margin agreements (CSA), of which 67 with market counterparties (about 34%) and 132 with mutual bank industry counterparties (about 66%).

As for repos, 10 GRMAs were entered into and the business is 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;
  - 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	UNIMPAIRED POSITIONS	TOTAL
1. Financial assets available for sale	-	-	-	-	5,206,376	5,206,376
2. Financial assets held to maturity	-	-	-	-	1,566,247	1,566,247
3. Due from banks	-	-	-	-	34,725,317	34,725,317
4. Loans to customers	18,530	609	629	1,168	4,034,726	4,055,662
5. Financial assets at fair value	-	-	-	-	14,877	14,877
6. Financial assets held for sale	-	-	-	-	-	-
TOTAL AT 30/06/2016	**18,530**	**609**	**629**	**1,168**	**45,547,543**	**45,568,479**
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	-	-	-	5,206,376	-	5,206,376	5,206,376
2. Financial assets held to maturity	-	-	-	1,566,247	-	1,566,247	1,566,247
3. Due from banks	-	-	-	34,725,317	-	34,725,317	34,725,317
4. Loans to customers	57,658	37,890	19,768	4,036,713	819	4,035,894	4,055,662
5. Financial assets at fair value	-	-	-	X	X	14,877	14,877
6. Financial assets held for sale	-	-	-	-	-	-	-
TOTAL AT 30/06/2016	**57,658**	**37,890**	**19,768**	**45,534,653**	**819**	**45,548,711**	**45,568,479**
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	-	-	496,327
8. Hedging derivatives	-	-	11,657
TOTAL AT 30/06/2016	**-**	**-**	**507,984**
TOTAL AT 31/12/2015	**-**	**-**	**410,807**

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

	GROSS EXPOSURE					SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS			
	UP TO 3 MONTHS	FROM MORE THAN 3 MONTHS TO 6 MONTHS	FROM MORE THAN 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
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	34,745,701	X	-	34,745,701
- of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A AT 31/12/2015	**-**	**-**	**-**	**-**	**34,745,701**	**-**	**-**	**34,745,701**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	1,893,648	X	-	1,893,648
TOTAL B AT 30/06/2016	**-**	**-**	**-**	**-**	**1,893,648**	**-**	**-**	**1,893,648**
TOTAL A+B AT 30/06/2016	**-**	**-**	**-**	**-**	**36,639,349**	**-**	**-**	**36,639,349**

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

	GROSS EXPOSURE					SPECIFIC WRITEDOWNS	PORTFOLIO WRITEDOWNS	NET EXPOSURE
	IMPAIRED ASSETS				UNIMPAIRED ASSETS			
	UP TO 3 MONTHS	FROM MORE THAN 3 MONTHS TO 6 MONTHS	FROM MORE THAN 6 MONTHS TO 1 YEAR	MORE THAN 1 YEAR				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad debts	-	-	-	56,301	X	37,771	X	18,530
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to be repaid	251	4	18	446	X	110	X	609
- of which: forborne exposures	250	-	-	367	X	99	X	518
c) Impaired past due exposures	-	73	565	-	X	9	X	629
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past due exposures	X	X	X	X	1,174	X	6	1,168
- of which: forborne exposures	X	X	X	X	342	X	3	339
e) Other unimpaired exposures	X	X	X	X	10,884,460	X	813	10,883,647
- of which: forborne exposures	X	X	X	X	262	X	2	260
TOTAL A AT 31/12/2015	**251**	**77**	**583**	**56,747**	**10,885,634**	**37,890**	**819**	**10,904,583**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	2,447,957	X	-	2,431,708
TOTAL B AT 30/06/2016	**-**	**-**	**-**	**-**	**2,447,957**	**-**	**-**	**2,431,708**
TOTAL A+B AT 30/06/2016	**251**	**77**	**583**	**56,747**	**13,317,342**	**37,890**	**819**	**13,336,291**

C. SECURITIZATIONS

C.1 SECURITIZATIONS

Qualitative disclosures
There were no outstanding securitizations at the reporting date.

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.

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

Market risk is defined as the risk of incurring losses generated by operations in markets for financial instruments, foreign exchange and commodities (see Bank of Italy Circular 263/2006, Title II, Chapter 4, Part One).

Intermediation for the mutual banks is the main strategic objective of Iccrea Banca. This is pursued by seeking to ensure that the breadth and content of the financial portfolios are consistent with the needs of the mutual banks and in line with the evolution of the markets. Position activities are carried out using standard financial instruments as well as derivative contracts. In all cases, the management of maturity transformation both at medium/long-term and within the context of treasury operations is carried out in compliance with a financial risk containment policy.

At the Iccrea Banking Group level, operational management of finance activities is centralized with Iccrea Banca, which is responsible for funding and the assumption and management at the individual and consolidated levels of interest rate, exchange rate and liquidity risk in order to ensure the essential sterilization and optimization of overall funding and hedging costs for Group companies.

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

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

The main activities performed are:

- funding and lending on the interbank market;
- trading as a primary dealer on the MTS exchange;
- acting as a market maker and direct participant (for transmission of orders from mutual banks) on the Hi-MTF and EuroTLX multilateral trading systems;
- participating in the primary market for share and bond placements and in tenders and subscriptions of government securities;
- negotiating repurchase agreements on both OTC and regulated markets, and derivatives on regulated markets;
- structuring, executing and managing financial derivatives traded on unregulated markets, mainly to satisfy the specific needs of the Bank's customers;
- providing the mutual banks with investment services, trading on own account, order execution for customers, order reception and transmission, trading on behalf of third parties and the placement of financial instruments issued by the Bank and by third parties;
- providing the mutual banks with access to standing facilities with the ECB;
- management of liquidity and the short-term interest rate profile in respect of transactions on the interbank, foreign exchange and precious metals markets;
- structuring of medium/long-term funding operations on domestic and international markets.

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

Qualitative disclosures
A. General aspects

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

Within the context of operating powers, specific operational limits on trading positions that generate exposures to market risks have been established. These risks are assumed in respect of domestic government securities and futures contracts, traded on official markets with netting and guarantee mechanisms, as well as mainly plain vanilla interest rate derivatives to support the mutual banks' hedging requirements.

Transactions in interest rate derivatives also include interest rate swaps with institutional counterparties to support the special purpose vehicle in transforming interest flows generated by securitizations of receivables of the mutual banks and the companies of the Iccrea Banking Group. Overall exposure to interest rate risk is concentrated in transactions in euros. As a result, the impact of correlation between developments in the yield curves for other currencies is minimal.

B. MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

Organization

GOVERNANCE

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

The control and monitoring of market risks is carried out by the Risk Management unit.

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

Within the Finance department, exposures are assumed and managed by the following units:

- *Proprietary Finance and Trading*, which is tasked with managing activities connected with the trading book and identifying funding needs at the individual and consolidated level, monitoring the interest-rate, exchange-rate and liquidity risks of the banking book. The unit also manages interest-rate and liquidity risks at medium and long term. It acts as a market maker on multilateral trading systems, and as a specialist and primary dealer, as well as handling the structuring and own-account trading of OTC financial derivatives. It operates in accordance with the policies defined and the guidelines set for the management of the portfolios within the established risk limits and seeking to achieve profit targets;
- *Money Markets*, which uses derivatives on interest rates and exchange rates in order to manage the short-term interest rate and exchange rate risk profile in respect of trading on the interbank money market and intercompany transactions.

Compliance with limits is verified by the Risk Management unit.

CONTROL AND MONITORING

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

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

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

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

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

With regard to the Bank's own portfolio, in view of the market conditions that are currently impacting Italian government securities and in order to effectively manage the liquidity resulting from expansive monetary policy decisions, investment in Italian government securities, begun in 2013, continued in the first half of 2016. At June 30, 2016 the portfolio, which was mainly composed of Italian government securities, amounted to about €7.2 billion, with a residual life of 1.3 years. More specifically, operational developments in the overall portfolio involved the following sub-portfolios:

- tactical portfolio: nominal value of €1.4 billion and residual life of 0.6 years, established in order to boost income through a strategy of refinancing designed to minimize the exposure to interest rate risk and changes in net interest income;
- liquidity portfolio: nominal value of €1.5 billion and residual life of 0.79 years, intended to establish and maintain structural liquidity reserves;
- investment portfolio: nominal value of €3.65 billion and residual life of 1.64 years (with a duration of 0.77 years).

In the first half of 2016, the Risk Management unit continued its work to strengthen the tools available to manage and monitor those risks.

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

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

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

REPORTING

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

Measuring risk

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

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

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

Methods

At the operational level, Iccrea Banca uses internal models for measurement purposes. The logical and methodological approaches adopted to measure market risk for operational purposes can be classified as follows:

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

Value at Risk (VaR)

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;
- equity.

The current model can calculate VaR both for more detailed portfolios and for larger aggregates, permitting considerable granularity in the analysis, control and management of risk profiles and the effects of diversification. The possibility for calculating VaR at multiple levels of synthesis (consistent with the operating strategies of the portfolios and the organizational hierarchy of Finance) and the ability of the model to decompose VaR into different risk determinants make it possible to create an effective system of comparable cross-risk and cross-business limits.

Sensitivity and Greeks of options

Sensitivity measures the risk associated with changes in the theoretical value of a financial position in response to changes in a defined amount of the associated risk factors. It captures the breadth and direction of the change in the form of multiples or monetary changes in the theoretical value without explicit assumptions about the holding period or correlations between risk factors.

The main sensitivity indicators currently used are:

- PV01: the change in market value in response to a change of 1 basis point in the zero coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities.

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);

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

At Iccrea Banca, the approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements.

These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures.

STRESS TESTING AND SCENARIOS

Stress tests measure the change in the value of instruments or portfolios in response to unexpected (i.e. extreme) changes in the intensity or correlation of risk factors. Scenario analyses measure the change in the value of instruments or portfolios in response to changes in risk factors in circumstances that reflect actual past situations or expectations of future developments in market variables.

Stress tests and scenario analysis are carried out by measuring the change in the theoretical value of positions in response to changes in the risk factors. The change can be calculated both through the use of linear sensitivity relationships (e.g. deltas) and through the revaluation of positions by applying the specified variations to the risk factors.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of models on an ongoing basis. The effectiveness of the calculation model must be monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically.

In order to ensure greater effectiveness of the overall risk management system, Iccrea Banca conducts backtesting using management P&L. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;
- break down and interpret the sources and causes of daily changes in P&L;
- capture and monitor any risk factors that are not fully captured by the calculation models adopted.

The daily P&L series used in the comparison with the VaR series is estimated using the total effective P&L achieved by the various desks, adjusted for components that are not pertinent to the estimation of risk (such as, for example, intraday operations). The comparison highlights potential but functional differences due to details and measurement periods that are not always perfectly matched between front office measurements and Risk Management measurements. The measurements of P&L are conducted by Risk Management on a daily basis by individual desk.

At the operating process level, the line units involved are responsible for performing first level controls to assess and report the emergence of any problems. They operate in compliance with the operating limits they have been assigned.
Current operating limits are structured in line with the organizational/operational structure of the Finance department and consist of:

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

The CRO area performs second-level controls in verifying the adequacy, effectiveness and consistency over time of policies (and limits), 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/RAS purposes and specific analysis of the Group's overall exposure to market risks.

The natural locus of the strategic and operational management of market risks is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives, tolerances and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the CRO area. The Group's RAS sets out the main indicators of market risk at the individual entity level.

- Max RWA from market risks;
- VaR 99% (1d) trading book (for Iccrea Banca);
- Balance of AFS reserve on Italian government securities in investment book (for Iccrea Banca);
- Max Italian sovereign exposure in AFS book (measured at consolidated level).

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 soundness of the analysis performed and the associated findings.

CALCULATING THE CAPITAL REQUIREMENT

To quantify the capital requirement for market risk, Iccrea Banca uses the standardized method (see Bank of Italy Circular 285, Title II, Chapter 9, Section 1)..

Quantitative disclosures

1. SUPERVISORY TRADING BOOK: DISTRIBUTION BY RESIDUAL MATURITY (REPRICING DATE) OF ON-BALANCE-SHEET FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

2. SUPERVISORY TRADING BOOK: DISTRIBUTION OF EXPOSURES IN EQUITY SECURITIES AND EQUITY INDICES BY MAIN COUNTRIES OF LISTING

This table has not been completed since an analysis of interest rate risk sensitivity has been provided.

3. SUPERVISORY TRADING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

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

	ESTIMATED IMPACT ON GROSS INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Iccrea Banca	25.36	-27.21	16.97	-18.21	2.35	-2.52

Figures in millions of euros at June 30, 2016

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

	ESTIMATED IMPACT ON GROSS INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Iccrea Banca	0.63	-0.47	0.42	-0.32	0.06	-0.04

Figures in millions of euros at June 30, 2016

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

Qualitative disclosures

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK AND PRICE RISK

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

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

Iccrea Banca represents the interface between the individual mutual banks and Group companies and the domestic and international monetary and financial markets. Specifically, the Bank:

- performs treasury activities, managing the liquidity of the mutual banks;
- operates on Italian and foreign securities markets, including as a primary dealer on the MTS, the electronic market for government securities;
- ensures that the financial needs of the Group companies are met through funding activities within the mutual bank system and on the financial markets;
- with the support of 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 the responsibility of the Finance department, which is directly responsible for achieving financial and commercial targets for financial and credit intermediation and which identifies and develops financial services and instruments to support the needs of the mutual banks and manages the Bank's own assets, in compliance with the guidelines set by senior management.

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

In the first half of 2016, in view of the current challenging economic conditions, funding and lending operations were mainly conducted on the collateralized market.

The pooling service launched in June 2011 for the mutual banks continued. It gives them access to the standing facilities of the ECB. During the fourth quarter of 2014, Iccrea Banca formed a TLTRO Group, through which around 185 mutual banks have access to the new monetary policy instruments called targeted longer-term financial operations (TLTRO). In the first half of 2016, Iccrea Banca fully repaid the funds raised in TLTRO I and, at the same time, participated in the first TLTRO II operation, providing support to 158 mutual banks.

Short-term funding through the mutual banks (daily settlement account, fixed-term deposits and investment accounts) was mainly used to lend on the interbank market or to finance the Group companies.

Iccrea Banca's structural funding in the first half of 2016 included bond issues totaling €0.54 billion.

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

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

B. FAIR VALUE HEDGING

Positions exposed to interest rate risk are hedged in accordance with the IAS rules for fair value hedges.

More specifically, at June 30, 2016 the following positions were hedged:

- 1 fixed-rate loan issued to BCC Solutions with a remaining liability of €20.5 million hedged by means of an interest rate swap (IRS);
- 1 fixed-rate loan issued to BCC Credito Consumo with a remaining liability of €2.5 million hedged by means of an IRS;
- 2 fixed-rate bonds issued by the Bank and hedged by means of an IRS with a nominal value of €60 million;
- 2 mixed-rate bonds issued by the Bank and hedged with IRSs and interest rate options (floors) with a nominal value of €439.1 million;
- 4 treasury bonds (BTPs) linked to European inflation hedged with IRSs and options with a nominal value of €958 million;
- 1 treasury bond (BTP) linked to Italian inflation hedged with IRSs and options with a nominal value of €25 million;
- 2 fixed-rate treasury bonds (BTPs) hedged with IRSs with a nominal value of €130 million;
- 2 Treasury Credit Certificates (CTZ) hedged with an overnight indexed swap (OIS) with a nominal value of €600 million;
- 2 fixed-rate deposits hedged with overnight indexed swaps (OISs) with a nominal value of €95 million;

In addition, during the period the Bank also undertook the following macro-hedging transaction:

- hedging of a loan portfolio (collateralized loans to the mutual banks) hedged with OISs with a nominal value of €3,131 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;
- 3 dollar-denominated bonds hedged using cross currency interest rate swaps (CCIRS) with a nominal value of €44.5 million.

Quantitative disclosures

1. BANKING BOOK: DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL MATURITY (REPRICING DATE)

This table has not been completed since an analysis of interest rate and price risk sensitivity has been provided.

2. BANKING BOOK: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

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

	ESTIMATED IMPACT ON NET INTEREST INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDERS' EQUITY	
	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp	+ 100 bp	- 100 bp
Iccrea Banca	-8.34	9.62	-5.58	6.44	-0.77	0.89

Figures in millions of euro at June 30, 2016

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

	ESTIMATED IMPACT ON GROSS INCOME		ESTIMATED IMPACT ON NET PROFIT		ESTIMATED IMPACT ON SHAREHOLDER S' EQUITY	
	+24%	-24%	+24%	-24%	+24%	-24%
Iccrea Banca	147.19	-147.19	98.52	-98.52	13.62	-13.62

Figures in millions of euro at June 30, 2016

2.3 EXCHANGE RATE RISK

Qualitative disclosures

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF EXCHANGE RATE RISK

Exchange rate risk is managed in a centralized manner by the Treasury and Foreign Exchange Unit. The Bank constantly scales the positions it assumes in the various currencies in relation to the support it provides to the foreign exchange requirements of the mutual banks and other Group companies.

Operations are mainly concentrated in major currencies. The Bank adopts a system of daily operating limits on the overall foreign exchange exposure, as well as the net foreign exchange positions in respect of individual currencies. The overall limit is segmented into partial ceilings on the basis of the importance of the various currencies.

SECTION 3 - LIQUIDITY RISK

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

Liquidity risk is defined as the risk of not being able to discharge one's payment obligations as a result of not being able to raise funds on the market (funding liquidity risk) or liquidate assets (market liquidity risk)" (see Bank of Italy, Circular 285/2013 "Supervisory regulations for banks" as amended Part One, Title IV, Chapter 6, Section I).

In order to identify the liquidity risk deriving from its core operations the Group adopts the definitions provided for in the applicable measures issued by the supervisory authorities. In order to ensure the sound and prudent management of liquidity and the associated risk, the Group has set itself 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.

Liquidity risk is managed by the Group though the integration of specific processes involving the Bank's boards, corporate control units and various other Group structures, each to the extent consistent with its role and duties.

The framework for managing liquidity and governing the liquidity risk of the Group is of a centralized nature. The Parent Company is responsible for overall governance of liquidity and liquidity risk at the Group level, as it:

- is responsible for defining Group liquidity risk management policies;
- monitors the exposure to liquidity risk (operational and structural) on a centralized basis;
- manages liquidity risk at the consolidated level with the preparation of a funding plan that is consistent with current and prospective operations;
- defines and governs the internal transfer pricing system.

Operating liquidity is managed on a centralized basis for the Group by Iccrea Banca, which in coordination with the Parent Company manages 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. Iccrea Banca is also responsible for managing operations in repurchase transactions and pooling with the central bank, 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 – and open market operations with the ECB.

Iccrea Banca also handles the centralized management of structural liquidity, taking 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 both performing transactions with subsidizing entities or national/supranational entities (CDP, EIB, etc..) and structuring and issuing debt instruments on the market.

All of the various aspects of liquidity risk are formally addressed in the Group Liquidity Policy, which was recently updated. The update sought to incorporate within a single document (which was then transmitted to the various departments and other units of the Group as well as the subsidiaries) all of the various aspects associated with managing liquidity risk (i.e. the model for the centralized management of operating and structural liquidity, the description and updating of the Funding Plan and the Contingency Funding Plan, the identification and measurement of operating and structural liquidity, the system for specifying and monitoring limits, the stress testing framework and reporting) and the systems for internal fund transfers (fund transfer pricing), as well as a description of the overall information system connected with these operations.

The main measures regarded:

a) the revision and updating of the Group's fund transfer pricing mechanism, with a focus on the cost of funding and liquidity components;

b) the definition of the Liquidity Risk Framework, developed in accordance with the RAF, risk governance policies and the overall risk management process, which is an integral part of the general risk management framework;
c) the revision of the overall system of limits for liquidity indicators;
d) within the Contingency Funding Plan, a new definition of "warning" limits and the associated escalation processes, in line with the Group RAF.

The system of limits adopted in the liquidity risk management framework referred to point c) above is a key tool for the Group in managing, controlling and mitigating liquidity risk. Its development took account of the nature, objectives and operational complexity of the Group and the individual subsidiaries, within the framework of the three categories of liquidity indicators (RAS, Risk Policies and Contingency) in accordance with the guidance and coordination role assigned to it and then rolled out to the subsidiaries (where applicable). more specifically:

- RAS indicators, i.e. specific indicators of liquidity risk that are an integral part of the Risk Appetite Framework. These metrics, which regard the primarily regulatory dimension of "liquidity adequacy" (e.g. LCR and NSFR) are calibrated in terms of the liquidity objectives/risk propensity consistent with strategic objectives. They specify the maximum level of risk that can technical be taken on without violating regulatory or internal restrictions;
- Risk Policies indicators ("management operational limits"), i.e. indicators that, given the specified risk appetite levels, represent "operational" implementation of the strategic decisions taken by the Board. They are used to mitigate and manage both operating and structural liquidity risk. The limits are updated constantly, taking due account of any changes in the Bank's strategy and operations;
- Contingency indicators, i.e. indicators that complete the Liquidity Risk Framework, which are designed to alert the Bank to potential liquidity strains that could indicate systemic or idiosyncratic crises.

Weekly/daily reporting to the Bank of Italy – short-term liquidity

Since October 2008, the Parent Company prepares a weekly report for the Bank of Italy on the liquidity position, monitoring the equilibrium of expected cash flows at the Group level over the specified time horizon (from 0 to 3 months).

Measurement and control of liquidity risk

Measuring and monitoring the Group's exposure to operating and structural 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. On the basis of the desired time horizon, the Group builds two maturity curves: operating 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 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.

Liquidity risk is monitored by the Risk Management unit of the Parent Company. This activity is based on assessing and measuring the risk profile against the RAS, Risk Policies and Contingency indicators established for managing liquidity risk, consistent with the RAF and the system of limits and with the frequency specified for each indicator (daily, weekly, monthly). Risk Management, with the support of the respective units of the subsidiaries (especially as regards Iccrea Banca and Banca Sviluppo), coordinates and supervises the monitoring of the risk profile for each subsidiary on an ongoing basis.

Depending on the type of indicator, breaches of the established limits trigger specific, codified escalation responses associated with a range of interventions calibrated on the basis of the severity of the situation (breach/violation of the indicator limit). The escalation processes are designed to be rapid and efficient, clearly defining the roles and responsibilities of the various actors involved and the timetable for the measures to be taken. They specify the reporting lines to the heads of the risk management units, the coordination mechanisms between Risk Management, the management units and other control units and lines of communication with the Board committees (Risk, Finance, Recovery) and top management.

SECTION 4 – OPERATIONAL RISKS

Qualitative disclosures

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

MEASUREMENT OF OPERATIONAL RISKS

Within the framework of the initiatives defined at the Group level in the Risk Management area, the Bank has a control system consisting of all the company procedures governing and regulation the ongoing development and coordinated use of the factors of production utilized in front, middle and back office operating processes.

Built around the consolidated three-level prudential structure, the operational risk control system includes so-called second-level controls (Risk Management and Compliance) on system design and ongoing verification of its effectiveness, and third-level controls for assessing the overall adequacy and efficiency of the control system, as well as observing its regular performance.

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 qualitatively to identify the internal problems underlying those risks, thereby enabling cost/benefit analysis of the initiatives to be taken in response.

The operational risk analysis system created through these initiatives is composed of:

- an overall framework for managing operational risks, setting out the prospective self-assessment model for determining exposure to operational risks (risk assessment).

Quantitative disclosures

As from 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.

In particular, the Bank's capital requirement at the end of last year was €33,288 thousand.

Part F

Information on capital

PART F – INFORMATION ON CAPITAL

SECTION 1 - COMPANY CAPITAL

A. Qualitative disclosures

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business.

Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. Quantitative disclosures

B.1 COMPANY CAPITAL: COMPOSITION

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
1. Share capital	**216,913**	**216,913**
2. Share premium reserve	**-**	**-**
3. Reserves	**194,425**	**194,425**
- earnings	112,423	112,423
a) legal	48,201	48,201
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	64,017	64,017
- other	82,002	82,002
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**-**	**-**
6. Valuation reserves:	**73,852**	**89,088**
- Financial assets available for sale	26,758	43,531
- Property and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	1,165	(831)
- Foreign exchange differences		-
- Non-current assets held for sale		-
- Actuarial gains (losses) on defined benefit plans	(1,937)	(1,478)
- Share of valuation reserves of equity investments accounted for using equity method		-
- Special revaluation laws	47,866	47,866
7. Net profit (loss) for the period	**49,664**	**9,245**
TOTAL	**534,854**	**509,671**

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

	TOTAL AT 30/06/2016		TOTAL AT 31/12/2015	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	21,876	(1,555)	40,262	(3,609)
2. Equity securities	6,473	-	6,916	-
3. Units in collective investment undertakings	-	(36)	-	(38)
4. Loans	-	-	-	-
TOTAL	**28,349**	**(1,591)**	**47,178**	**(3,647)**

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

2.1 OWN FUNDS

A. Qualitative disclosures

Own funds, risk-weighted assets and solvency ratios at June 30, 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 June 30, 2016 own funds amounted to €572,599 thousand, as against a total capital requirement of €225,319 thousand, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

1. COMMON EQUITY TIER 1 (CET1) CAPITAL

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €485,190 thousand. Applying prudential filters, represented by negative changes in the credit rating, the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €1,622 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €483,568 thousand. The elements to be deducted consist of intangible assets and the excess of components to be deducted from Additional Tier 1 capital over Additional Tier 1 capital and amount to €9,474 thousand, while the negative impact of the transition on CET 1 comes to €30,325 thousand and is represented by the negative actuarial reserves (IAS 19) and the exclusion of unrealized profits on AFS securities. Therefore, CET1 amounts to €443,769 thousand.

2. ADDITIONAL TIER 1 (AT1) CAPITAL

There are no instruments that are included under Additional Tier 1 (AT1) capital in these financial statements.

3. TIER 2 (T2) CAPITAL

Tier 2 (T2) capital, before the application of the filters provided for under the transitional system, amounts to €131,042 thousand and is composed of three subordinated bonds issued by the Bank, net of the redeemable portion. As a result of exceeding the threshold of 10% of CET1, deductible elements amount to €2,734 thousand and as a result of the transitional provisions, there is a positive filter amounting to €522 thousand, bringing the total Tier 2 capital to €128,830 thousand.

The following are the characteristics of the subordinated lower Tier II bonds:

1. 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;
2. 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;
3. issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest rate 6M Euribor + 350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity except in the event of early redemption.

B. Quantitative disclosures

	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
A. Common Equity Tier 1 (CET1) capital before the application of the prudential filters	**485,190**	**500,426**
of which CET1 instruments subject to the transitional provisions	-	-
B. CET1 prudential filters (+/-)	**(1,622)**	**(1,149)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**483,568**	**499,277**
D. Elements to be deducted from CET1	**(9,474)**	**(10,809)**
E. Transitional system - Impact on CET1 (+/-)	**(30,325)**	**(39,502)**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**443,769**	**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	**131,042**	**131,042**
of which Tier 2 instruments subject to the transitional provisions	-	-
N. Elements to be deducted from T2	**(2,734)**	-
O. Transitional system - Impact on T2 (+/-)	**522**	**2,136**
P. Total Tier 2 (T2) capital (M - N +/- O)	**128,830**	**133,178**
Q. Total own funds (F + L + P)	**572,599**	**582,144**

2.2 CAPITAL ADEQUACY

A. Qualitative disclosures

The capital ratios at June 30, 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 30/06/2016	TOTAL AT 31/12/2015	TOTAL AT 30/06/2016	TOTAL AT 31/12/2015
A. EXPOSURES				
A.1 CREDIT AND COUNTERPARTY RISK	**82,811,014**	**78,929,207**	**2,072,013**	**1,983,083**
1. Standardized approach	82,811,014	78,729,207	2,072,013	1,862,603
2. IRB approach	-	-	-	-
2.1 Foundation	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitizations	-	200,000	-	120,480
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**165,761**	**158,647**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING			**6,924**	**4,673**
B.3 REGULATORY RISK				
B.4 MARKET RISKS			**19,346**	**13,593**
1. Standardized method			19,346	13,593
2. Internal models				
3. Concentration risk				
B.5 OPERATIONAL RISK			**33,288**	**33,288**
1. Basic indicator approach			33,288	33,288
2. Standardized approach				
3. Advanced measurement approach				
B.6 OTHER COMPONENTS				
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**225,319**	**210,201**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 RISK-WEIGHTED ASSETS			**2,816,483**	**2,627,509**
C.2 CET1 CAPITAL RATIO			**15.76%**	**17.08%**
C.3 TIER1 CAPITAL RATIO			**15.76%**	**17.08%**
C.4 TOTAL CAPITAL RATIO			**20.33%**	**22.14%**

Part G

Business combinations

PART G – BUSINESS COMBINATIONS

As at the reporting date, the Bank was not involved in any business combinations.

Part H

Transactions with related parties

PARTE H – OPERAZIONI CON PARTI CORRELATE

PARTE H – TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following tables report the information required under IAS 24 concerning the remuneration of directors and 2 top managers, as well as the members of the Board of Auditors.

	TOTAL AT 30/06/2016
Compensation and other remuneration (1)	495
Post-employment benefits (2)	24

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

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

	TOTAL AT 30/06/2016
Compensation of members of Board of Auditors	78

LOANS AND GUARANTEES GRANTED

	TOTAL AT 30/06/2016
- Members of Board of Directors	329
- Members of Board of Auditors	0

3. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

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

REGISTERED OFFICE
VIA LUCREZIA ROMANA, 41/47
00178 ROME

PARENT COMPANY - KEY FIGURES AT DECEMBER 31, 2015 (THOUSANDS OF EUROS)

BALANCE SHEET	Total at 31/12/2015
Assets	**1,545,300**
Liabilities	**93,792**
Share capital	1,151,045
Legal reserve	35,581
Treasury share reserve	443
Extraordinary reserve	110,584
Other reserves	3,374
Valuation reserve	10,881
Share premium reserve	4,747
Treasury shares	(443)
Net profit (loss) for the period	135,296
Shareholders' equity	**1,451,508**
INCOME STATEMENT	**Total at 31/12/2015**
Net interest income	384
Net commission income	18
Gross income	164,039
Net income (loss) from financial operations	164,039
Operating expenses	(29,134)
Gains (losses) on equity investments	-
Net profit (loss) for the period	**135,296**

The Parent Company performs management and coordination activities.

THE FOLLOWING TABLES REPORT THE BALANCE SHEET AND INCOME STATEMENT ITEMS INVOLVED IN INTERCOMPANY TRANSACTIONS:

ASSETS	A20_FINANCIAL ASSETS HELD FOR TRADING	A30_FINANCIAL ASSETS AT FAIR VALUE	A60_DUE FROM BANKS	A70_LOANS TO CUSTOMERS	A150_ OTHER ASSETS
BCC Risparmio e Previdenza	-	-	-	-	(134)
Iccrea BancaImpresa	(73,697)	0	(11,591,673)	-	(25,868)
BCC Gestione Crediti	-	-	-	(1,091)	(110)
BCC Solutions	-	-	-	(22,377)	(1,143)
BCC Retail	-	-	-	(281)	(12)
BCC Servizi Informatici	-	-	-	-	(4,119)
Iccrea Holding	-	-	-	-	(12,743)
BCC Beni Immobili	-	-	-	(8,137)	(15)
BCC Lease	-	-	-	(268,811)	(28)
BCC CreditoConsumo	-	-	-	(615,013)	(36)
BCC Factoring	-	-	-	(315,489)	(57)
Banca Sviluppo	(95)	-	(944,904)	-	(105)
TOTAL	**(73,792)**	**0**	**(12,536,577)**	**(1,231,199)**	**(44,370)**

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
BCC Risparmio e Previdenza	-	12,267	-	-	-	10
Iccrea BancaImpresa	99,832	-	-	2,225	-	116
BCC Gestione Crediti	-	2,077	-	-	-	16
BCC Solutions	-	337	-	-	-	1,270
BCC Retail	-	15	-	-	-	-
BCC Servizi Informatici	-	314	-	-	-	10,401
Iccrea Holding	-	266,409	-	-	-	3,617
BCC Beni Immobili	-	-	-	-	-	-
BCC Lease	-	-	-	-	-	6
BCC CreditoConsumo	-	-	-	-	-	18
BCC Factoring	-	430	-	-	-	7
Banca Sviluppo	410,806	-	452,507	3,077	-	95
TOTAL	**510,638**	**281,849**	**452,507**	**5,302**	**-**	**15,556**

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
BCC Risparmio e Previdenza	-	(4)	2	-	-		251
Iccrea BancaImpresa	37,201	(1,107)	511		19,170	-	1,888
BCC Gestione Crediti	19		5	-	-	(12)	82
BCC Solutions	489		1	-	-	(7,273)	258
BCC Retail	1	-	-	-	-	-	11
BCC Servizi Informatici	-	-	177	-	-	(5,368)	522
Iccrea Holding	-	(45)	-	-	-	(273)	218
BCC Beni Immobili	64	-	-	-	-	-	12
BCC Lease	2,016		67	-	-		21
BCC CreditoConsumo	7,396		60	-	-	-	74
BCC Factoring	471	-	8	-	-	-	20
Banca Sviluppo	642	(4,184)	879	(958)	(37)		115
TOTAL	**48,299**	**(5,340)**	**1,710**	**(958)**	**19,133**	**(12,926)**	**3,472**

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.

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Part L

Operating segments

PARTE L - INFORMATIVA DI SETTORE

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)	JUN -16	JUN -15	JUN -16	JUN -15	JUN -16	JUN -15	JUN - 16	JUN - 15
Net interest income	30,664	47,264	-213	285	140	-444	30,590	47,105
Net service income	30,771	40,769	47,938	48,348	41,738	11,959	120,447	101,076
Net fees and commissions	*4,875*	*6,683*	*47,913*	*48,316*	*7,140*	*9,608*	*59,928*	*64,607*
Result Trading Hedging repurchase/dividends	*28,035*	*36,257*	*-*	*-*	*32,185*	*4*	*60,220*	*36,261*
TOTAL REVENUES	**61,435**	**88,033**	**47,725**	**48,633**	**41,878**	**11,515**	**151,037**	**148,181**
Administrative expenses	17,832	18,477	36,918	39,303	41,544	32,998	96,294	90,778
Net adjustments of property and equipment and intangible assets	707	772	1,341	1,348	2,081	2,157	4,129	4,277
Other operating expenses/income	196	234	5,596	4,769	5,214	4,930	11,006	9,932
TOTAL OPERATING EXPENSES	**18,343**	**19,015**	**32,663**	**35,882**	**38,411**	**30,225**	**89,417**	**85,123**
GROSS OPERATING INCOME	**43,092**	**69,018**	**15,062**	**12,751**	**3,467**	**-18,710**	**61,620**	**63,058**

As regards the procedures for the determination of performance:

- net interest income is calculated by segment as the difference between actual interest and imputed interest on the treasury pool;
- net service income is calculated by way of direct allocation of income and expense components;
- operating expenses are allocated using a "full costing" approach that allocates all operating costs.

Net interest income at June 30, 2016 amounted to €30.6 million, down 35.1% on June 30, 2015 (€47.1 million). The decrease is mainly attributable to:
Net interest income on proprietary trading contracted by about 60% compared with last year (€28.3 million at June 2015 compared with €11.4 million at June 2016) reflecting:

- a decrease in the size of the tactical portfolio in both average nominal terms and in net profitability;
- a contraction in intercompany operations, for which net interest income declined by €3.2 million, the effect of a lower net average yield, while average principal amounts were essentially unchanged.

The forms of funding used were modified, with the use of collateralized treasury funds, benefiting from the reduction in the cost of funds. Of the total of €31 billion in collateralized funding, about €23 billion were used for the mutual banks, while the remainder was used in part to finance the expansion of the securities portfolio, especially the investment book, and in part for intercompany transactions, with a positive mismatching in interest rates. Nevertheless, the reduction in the cost of funds and the increase volumes handled on the investment book only partly offset the reduction in rates on the financial portfolio and the substantial reduction in the tactical portfolio.
Net service income, which came to €120.4 million at June 30, 2016 includes €59.9 million from net fees and commissions and other income and €60.5 million from trading operations and from dividends. Net fees and commissions and other income decreased from €64.6 million at June 2015 to €59.9 million at June 2016, mainly reflecting o contraction in the electronic money segment, especially on the acquiring side.

The increase in net income from financial operations from €36.3 million at June 30, 2015 to €60.2 million at June 30, 2016 mainly reflects gains on the disposal of financial assets available for sale.

Administrative expenses totaled €96.3 million at June 30, 2016 and include personnel expenses in the amount of €26.5 million (€30.7 million at June 30, 2015) and other administrative expenses in the amount of €69.8 million (€60 million at June 30, 2015).

Total value adjustments amounted to about €4.1 million at June 30, 2016, down about €0.2 million compared with June 2015 (€4.3 million).

Other operating income, reported under operating expenses, amounted to €11 million at June 30, 2016, compared with €9.9 million at June 30, 2015.

As a result of the foregoing, the gross profit from ordinary operations at June 30, 2016 came to about €61.6 million, a decrease of about €1.4 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, as the payment system segment is mainly involved in providing fee-based services.

	FINANCE AND LENDING		PAYMENT SERVICES		CORPORATE CENTER		TOTAL	
(FIGURES IN MILLIONS OF EUROS)	JUN16	JUN15	JUN16	JUN15	JUN16	JUN15	JUN16	JUN15
Cash and loans to customers	4.056	2.662	-	-	109	90	4.164	2.752
Due from banks	34.727	34.210	-	-	-	-	34.727	34.210
Other financial assets	7.318	9.077	29	40	871	384	8.217	9.501
TOTAL LENDING	**46.100**	**45.949**	**29**	**40**	**980**	**474**	**47.108**	**46.463**
Due to customers	27.714	22.753	532	427	12	6	28.258	23.186
Due to banks	12.855	17.282	-	-	-	-	12.855	17.282
Other financial liabilities	5.230	5.274	4	5	762	717	5.996	5.995
TOTAL FUNDING	**45.799**	**45.308**	**535**	**432**	**774**	**723**	**47.108**	**46.463**

Secondary reporting basis

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

Certification of the interim financial statements

Iccrea Banca

Gruppo bancario Iccrea

Iccrea Banca S.p.A.
Istituto Centrale del Credito Cooperativo

CERTIFICATION OF THE FINANCIAL STATEMENTS AT JUNE 30, 2016

We, the undersigned Giulio Magagni, as Chairman of the Board of Directors, and Alessandro Favia as Chief Accounting Officer

we confirm to the best of our knowledge that:

1. the financial statements of the Issuer prepared in accordance with International Financial Reporting Standards (as adopted in the European Union) give a true and fair view of the assets, liabilities, financial position and profit of the Issuer;

2. the management report includes a fair review of the development and performance of the business and position of the Issuer, together with a description of the principal risks and uncertainties that they face.

Rome, 04 august 2016

Alessandro Favia	Giulio Magagni
Chief Accounting Officer	Chairman of the Board of Directors

BCC

Auditor's Report

EY
Building a better working world

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Review report on the interim condensed financial statements
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim condensed financial statements, comprising the balance sheet as of June 30, 2016, the income statement, the statement of comprehensive income, the statement of shareholders' equity and the statement of cash flows for the six month period then ended and the related explanatory notes of Iccrea Banca S.p.A. The Directors of Iccrea Banca S.p.A. are responsible for the preparation of the interim condensed financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements of Iccrea Banca S.p.A. as of June 30, 2016 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis of matter

As indicated in the report on operations, the Shareholders' meetings of Iccrea Banca S.p.A. and Iccrea Holding S.p.A. of July 12, 2016 approved the merger by incorporation of Iccrea Holding S.p.A. into Iccrea Banca S.p.A. with effect from October 1, 2016.
Our conclusion is not qualified with respect to this matter.

Rome, August 5, 2016

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

Iccrea Banca

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CREDITO COOPERATIVO