Iccrea Banca

Gruppo Bancario Cooperativo Iccrea

Interim Report and Consolidated and Separate Financial Statements at June 30, 2020

Report and Interim Consolidated Financial Statements at June 30, 2020 of the Iccrea Cooperative Banking Group[1]

Report and Separate Interim Financial Statements at June 30, 2020 of the Parent Company Iccrea Banca S.p.A.

Iccrea Banca S.p.A.
Istituto Centrale del Credito Cooperativo
Parent Company of the Iccrea Cooperative Banking Group
Registered office and headquarters: Via Lucrezia Romana 41/47 - 00178 Rome, Italy
Share capital: €1,401,045,452.35 fully paid up
VAT reg. no. and tax ID no. 04774801007 - R.E.A. of Rome n. 801787
Participating entity in the Group VAT mechanism of the Iccrea Cooperative Banking Group, Vat reg. no. 15240741007
Entered in the Register of Banking Groups
Entered in the Register of Banks at no. 5251
ABI code no. (08000)

[1] Iccrea Cooperative Banking Group is intended to be the translation of "Gruppo Bancario Cooperativo Iccrea", which is the original name of the officially registered banking group.

CONTENTS

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE ICCREA COOPERATIVE BANKING GROUP

REPORT AND SEPARATE INTERIM FINANCIAL STATEMENTS OF THE PARENT COMPANY ICCREA BANCA S.P.A.

REPORT AND INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE ICCREA COOPERATIVE BANKING GROUP

CONSOLIDATED REPORT ON OPERATIONS

June 30, 2020

CONTENTS

CORPORATE BOARDS

Elected at the Ordinary Shareholders' Meeting of April 30, 2019, for the 2019-2021 term

BOARD OF DIRECTORS

MAINO Giuseppe	*Chairman*
STRA Pierpaolo	*Senior Deputy Chairman*
SAPORITO Salvatore	*Deputy Chairman*
ALFIERI Lucio (1) (2)	
BERNARDI Giuseppe	
CARRI Francesco	
FIORDELISI Teresa (3)	
GAMBI Giuseppe	
LEONE Paola* (1) (4)	
LONGHI Maurizio	
MENEGATTI Luigi* (1) (4)	
MINOJA Mario* (2) (3) (4)	
PIVA Flavio	
PORRO Angelo	
ZONI Laura* (2) (3)	

EXECUTIVE COMMITTEE

CARRI Francesco	*Chairman*
BERNARDI Giuseppe	
LONGHI Maurizio	
PIVA Flavio	
PORRO Angelo	

BOARD OF AUDITORS

SBARBATI Fernando	*Chairman*
ANDRIOLO Riccardo	*Standing Auditor*
ZANARDI Barbara	*Standing Auditor*
GRANGE Alessandro (5)	*Alternate Auditor*
VENTO Gianfranco Antonio	*Alternate Auditor*

SENIOR MANAGEMENT

PASTORE Mauro	*General Manager*
BOCCUZZI Giovanni (6)	*Senior Deputy General Manager*
GALBIATI Pietro	*Deputy General Manager*
ROMITO Francesco	*Deputy General Manager*

* Independent directors

(1) Member of the Risks Committee

(2) Member of the Appointments Committee

(3) Member of the Remuneration Committee

(4) Member of the Affiliated Bank Controls & Interventions Committee

(5) Resigned from June 9, 2020

(6) Resigned from September 15, 2020

1. EXECUTIVE SUMMARY

Timeline di costituzione del GBCI

2018

Start of the process — **April 27**

Start of the process to obtain authorization for the Group from the ECB and the Bank of Italy through the preparation and transmission of the related application and supporting documentation.

Declaratory finding — **July 24**

Issuance by the ECB to Iccrea Banca of the declaratory finding pursuant to Article 37-ter, paragraph 2, of the Consolidated Banking Act.

2019

Cohesion contract and cross-Guarantee Scheme — **January 18**

Transmission to the Bank of Italy and the ECB of the Cohesion Contract and the cross-Guarantee Scheme signed by the participating mutual banks, along with the amended articles of association, attached to the application for registration in the register of banking groups.

Formation of the ICBG — **March 4**

Registration of the Iccrea Cooperative Banking Group in the Register of Italian banking groups effective January 1, 2019.

2020

ICBG in numbers

Leading national mutual banking group

The Iccrea Cooperative Banking Group is the leading Italian banking group owned entirely by residents of local communities within Italy, with an ownership structure encompassing about **814,000 member shareholders**, nearly all of which are either households or small businesses.

Focus on retail customers

At June 2020 the **number of customers with loans** from the Cooperative Banking Group amounted to about **1.3 million, of which 88% retail customers** (households and SMEs). The number of **depositors** is equal to **3.2 million, of which about 95% households and SMEs.**

Assets

The total consolidated assets of the Iccrea Cooperative Banking Group at June 30, 2020 amounted to **€168.5 billion**.

Capital ratios

Capital strength demonstrated by a **CET1 ratio of 16.1%** and a **TCR of 16.9%,** figures that have been strengthening constantly since the establishment of the ICBG (respectively, 15.5% and 15.8% at June 2019 and 15.5% and 16.3% at December 2019).

Liquidity indicators

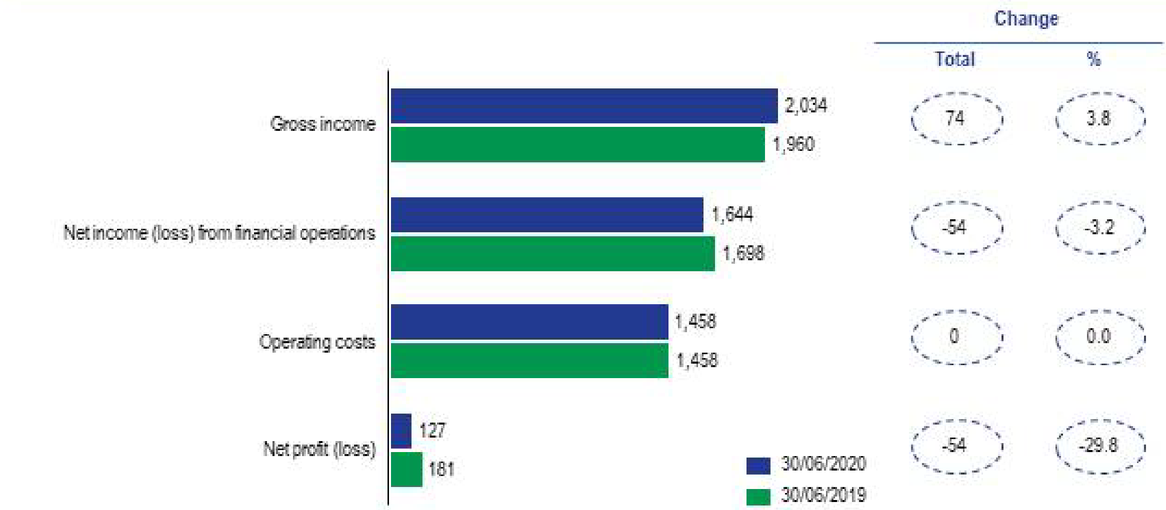
Sound and stable liquidity position with **LCR and NSFR** from the Group's formation equal on average to **287%** and **130%** (compared with, respectively, 279% and 132% at December 2019 and 212% and 139% at June 2019)

Liquidity reserves at June 30, 2020 equal to about **€33 billion.**

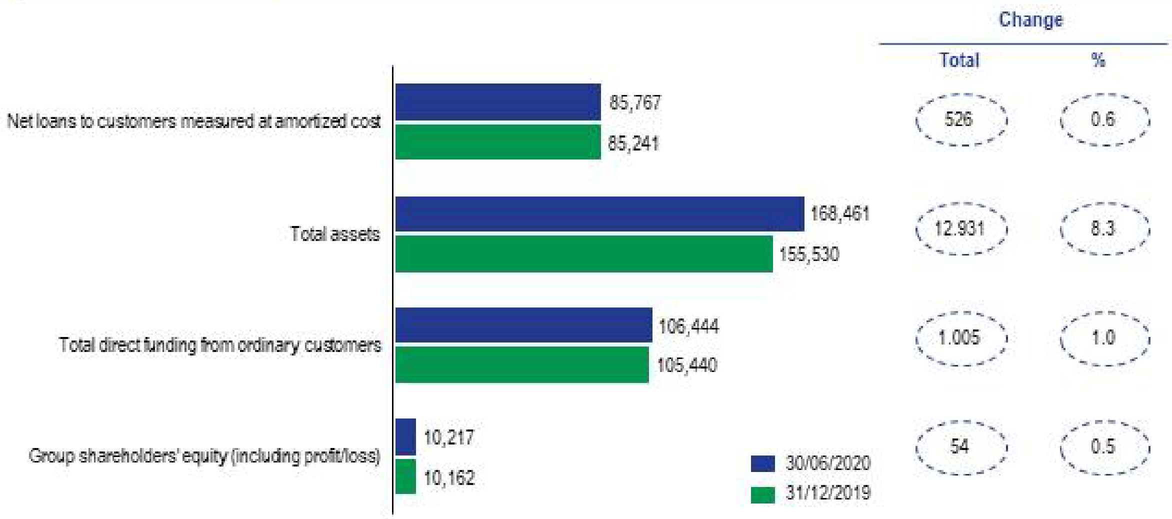
MAIN INDICATORS AT JUNE 30, 2020, DECEMBER 31, 2019 AND JUNE 30, 2019

PERFORMANCE INDICATORS (amounts in thousands of euros)	30/06/2020	31/12/2019	30/06/2019
STRUCTURAL RATIOS			
Net loans to customers measured at amortized cost /total assets	50.9%	54.8%	55.1%
Direct funding from customers/total liabilities	64.4%	67.9%	65.3%
Net loans to customers measured at amortized cost/direct funding from customers (loan to deposit ratio)	80.6%	80.7%	80.0%
Equity (including profit/loss)/total liabilities	6.1%	6.6%	6.7%
Managed assets/indirect bank funding from ordinary customers		7.7%	
PROFITABILITY RATIOS			
ROE (Net profit)/net equity including the profit for the period)	1.2%	2.4%	1.77%
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	1.2%	2.4%	1.21%
ROA (Net profit/total assets)	0.1%	0.2%	0.12%
Cost/income ratio	71.7%	73.9%	74.4%
Personnel expenses/gross income	41.0%	43.3%	42.2%
Net writedowns (writebacks) for credit risk/net loans to customers measured at amortized cost	0.5%	0.8%	0.3%
Net interest income/gross income	59.6%	59.9%	62.2%
Net fee and commission income/gross income	29.7%	32.3%	30.9%
Net interest income/Number of employees at end-period	54.6%	105.8%	54.7%
Net fee and commission income/Number of employees at end-period	27.2%	57.1%	27.2%
Gross income/Number of employees at end-period	91.6%	176.6%	88.1%
RISK RATIOS			
Net bad loans/net loans to customers measured at amortized cost	2.1%	2.2%	3.0%
Writedowns of bad loans/gross bad loans	66.6%	65.2%	63.9%
Net non-performing loans/net loans to customers measured at amortized cost	5.9%	6.1%	7.7%
Net UTP loans/net loans to customers measured at amortized cost	3.2%	3.6%	4.2%
Writedowns of UTP loans/gross UTP loans	39.6%	38.1%	35.4%
Gross non-performing loans/gross loans to customers measured at amortized cost	11.5%	11.6%	14.1%
CAPITAL RATIOS - *phased-in*			
Tier 1 ratio	16.1%	15.5%	15.5%
Common Equity Tier 1 ratio	16.1%	15.5%	15.5%
Total capital ratio	16.9%	16.3%	15.8%
Total own funds	11,465,493	11,619,277	11,309,169
of which: Tier 1 capital after filters and deductions	*10,979,985*	*11,059,993*	*11,131,268*
Risk-weighted assets (RWA)	68,172,398	71,123,849	71,848,046
INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA			
Profit/(loss) for the period	126,625	244,963	181,379
Profit/(loss) pertaining to the Group	122,123	238,478	178,619
Gross income	2,033,535	3,924,952	1,960,051
Operating expenses	1,457,800	2,901,822	1,458,416
Net loans to customers measured at amortized cost	85,766,612	85,240,858	83,424,929
of which: Net bad loans	*1,836,150*	*1,854,432*	*2,471,327*
of which: Net UTP loans	*2,767,599*	*3,057,608*	*3,528,680*
Net non-performing loans	5,017,923	5,208,573	6,426,320
Total direct funding from ordinary customers	106,444,437	105,439,547	103,603,779
Total indirect funding from ordinary customers		40,307,768	
Total funding from ordinary customers (direct + indirect)		145,747,315	
Equity pertaining to the Group (including profit/loss)	10,216,510	10,161,857	10,117,133
Intangible assets	150,459	146,462	134,312
Total consolidated assets	168,460,726	155,530,466	151,333,398
Number of branches	2,552	2,592	2,600
Number of Group banks	140	144	144
Number of affiliated Mutual Banks	136	140	140
Number of employees at end-period	22,196	22,219	22,260
Average number of employees	21,736	21,760	21,804

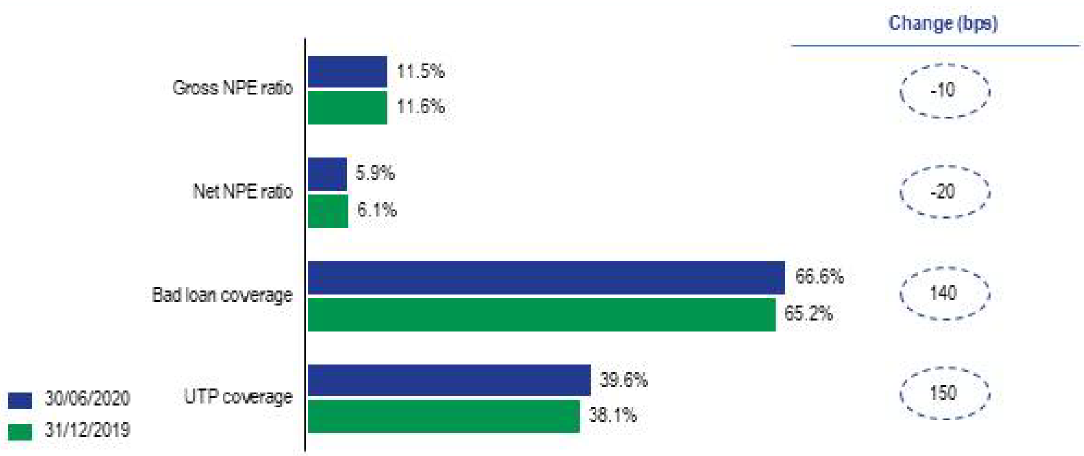
Semi-annual developments in key performance figures (millions of euros)



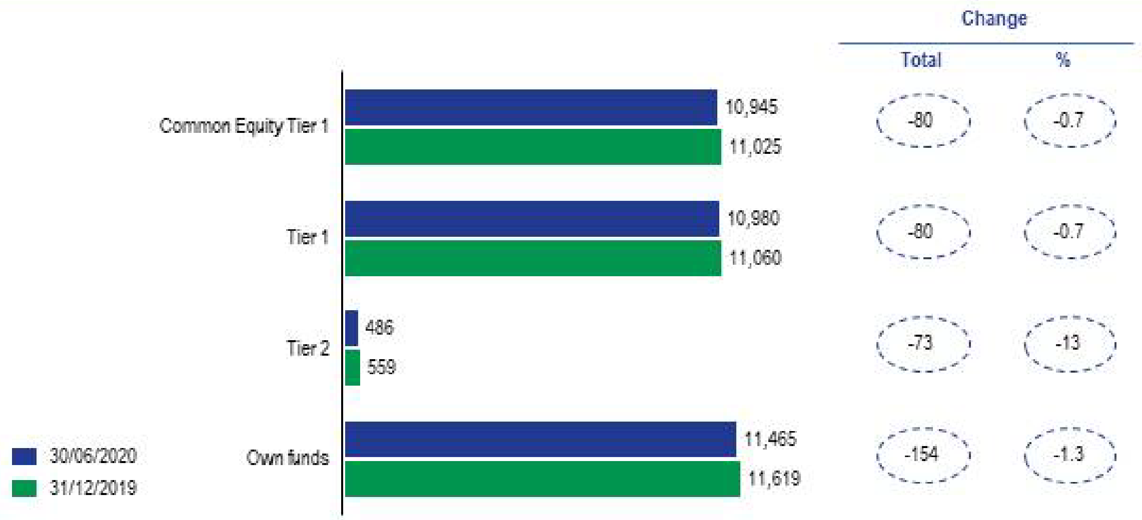
Key balance-sheet figures (millions of euros)



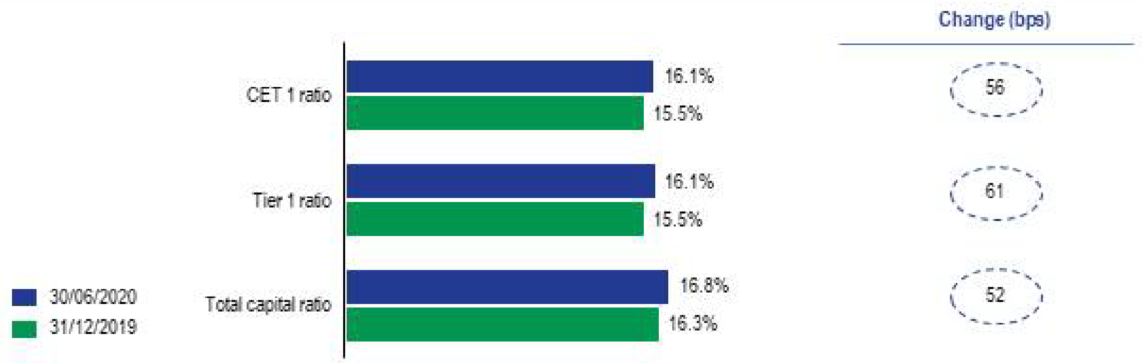
Key risk indicators (%)



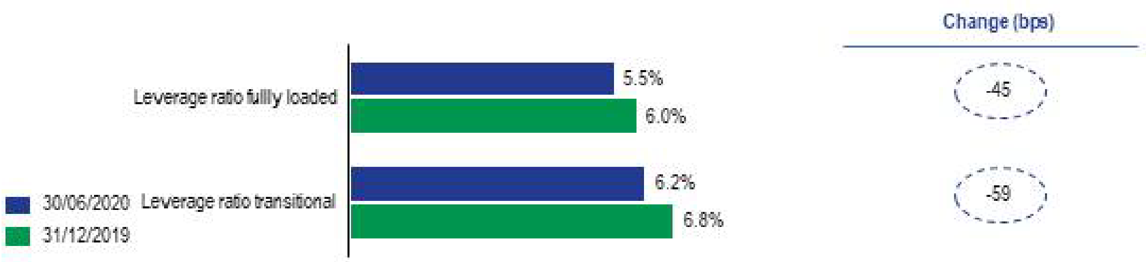
Composition of capital (millions of euros)



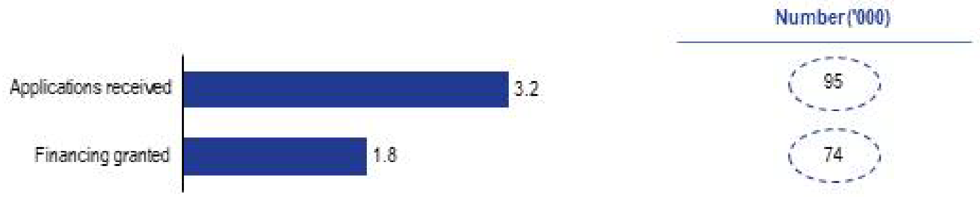
Capital ratios (%)



Leverage ratios (%)



Focus on new lending under Art. 13 DL Liquidity (billions of euros)



2. THE INTERNATIONAL AND ITALIAN MACROECONOMIC ENVIRONMENT AND THE SITUATION IN BANKING AND THE FINANCIAL MARKETS

The macroeconomic environment

In the first half of 2020, the international economy, already decelerating from the previous year, experienced a further sharp slowdown due to the COVID-19 pandemic, which has generated one of the worst economic crises in modern history. The progressive spread of the pandemic on a global level has forced many countries to adopt increasingly restrictive containment measures, with the closure of numerous economic activities and the almost total closure of air transport and tourism.

Data released by the OECD show that as a result of the crisis, in the first half of 2020 global GDP contracted by 9.8%, the largest drop since the 2008-09 financial crisis. Beginning in May, timid signs of recovery emerged, engendered in part by the expansionary monetary measures of central banks, which helped ease tensions on the financial markets, and by the gradual easing of measures suspending economic activity. However, despite the assurances of major political leaders around the world, the risk of new restrictive measures, which would inevitably have a further negative impact on the economy, remain high. The number of new COVID cases continues to increase around the world, particularly in the United States and Latin America, as well as in many other key emerging market economies (e.g. India and South Africa).

The extent of the impact of COVID-19 on public finances around the world is still very uncertain at this time and will depend not only on the duration of the pandemic, but also on the speed of the economic recovery. In any case, the COVID-19 pandemic and its financial and economic consequences will cause a sharp increase in the fiscal deficit and in the public debt/GDP ratio. Indeed, with the decline in output, the International Monetary Fund expects tax revenues to fall sharply. At the same time, the health expenditure necessary to address the emergency and the direct measures to support households and businesses, currently estimated at $3.3 trillion globally, will further exacerbate imbalances in the world's public finances.

Against this backdrop, the ECB expects global inflationary pressures to remain contained due to both falling oil prices and weak demand.

The latest forecasts released by the OECD point to a recovery in the global economy in the second half of 2020, closely connected with the relaxation of restrictions. More specifically, the organization produced GDP growth forecasts for the end of 2020 based on two scenarios: a "single hit scenario", which expects for a reduction of 7.5% in GDP, and a "double hit scenario", which shows a decline of 9.3%. The recovery in 2021 is expected to be more gradual than initially expected, with growth of between 2.8% and 5.2%.

However, the uncertainty about the evolution of the pandemic makes it difficult to predict future developments.

United States: due to the restrictive measures adopted in response to COVID-19, the American economy registered a sharp contraction in the second quarter of 2020: GDP decreased at an annualized rate of 31.7% as reported by the U.S. Bureau of Economic Analysis. The GDP figures reflect the decline in consumer spending as well as the reduction in exports, investment and local government spending, which was only partially offset by an increase in federal government spending. In the early weeks of March, the prospect of recession triggered a flight of capital from the equity markets. In order to prevent the economy from seizing up, the Federal Reserve mobilized considerable resources through unconventional monetary policies, eliminating the limits on quantitative easing and in just four months purchasing an amount of securities equivalent to the annual GDP of France. Economic indicators reached their absolute minimum in April, when the industrial production index fell by 16.2% (-19.5% for manufacturing). In the same month, the number of unemployed increased from 15.9 million to 23.1 million from the previous month, reaching an all-time high; the unemployment rate rose to 14.7%. After the lockdown, in June, the reopening of American states enabled the start of economic recovery, with a significant improvement in labor market figures, an increase in the consumer confidence index and the index of expectations of the purchasing managers of manufacturing and service companies.

European Union: beginning at the end of February 2020, the epidemic progressively spread in varying ways to all the Member States, which adopted a range of restrictive measures starting from the second quarter of 2020. Consequently, according to an estimate published by Eurostat, GDP in the euro area decreased by 12.1% compared with the previous quarter, showing that the effects of the pandemic on the real economy are the worst ever recorded since the birth of the Union. In March 2020 this situation prompted the Union and national authorities to adopt measures aimed at maintaining the necessary financial support to the real economy, facilitating measures to suspend payments on installment loans and to maintain support for liquidity, especially for households and SMEs. These initiatives accompanied the expansionary monetary policy measures ordered by the ECB to counter the risks associated with the spread of COVID-19.

Italy: Italy was the first European country to be severely affected by the pandemic and, consequently, one of the countries where the economic impact of COVID-19 was most substantial, at least in the initial phase of the outbreak. The fall in GDP in the second quarter of the year was estimated at around 10%, a consequence of the unfavorable developments in the economy during the total lockdown ordered in April, which saw a sharp decline in domestic demand and a negative contribution from foreign trade. Considering the extraordinary need to contain the negative effects that the COVID-19 emergency was having on the national socio-economic fabric, the Italian government approved a series of measures - described below in detail – to strengthen the National Health Service and provide financial support for households, self-employed workers and businesses in general.

In this context, analyzes released by the Bank of Italy show that industrial production - after the decline registered in the first quarter (-8.4%) – contracted even more markedly in April (-19.1% compared with March) as a result of the measures to halt "non-essential" activities. With the gradual easing of the lockdown, industrial activity resumed growth in May and June, although despite expanding by around 40% compared with April, it remained almost 25% below pre-COVID-19 levels. Consequently, the volume of exports of goods and services also decreased due to the closure of "non-essential" activities, which are the most export-oriented as they attract greater foreign demand. The construction sector also suffered a setback as a result of the measures adopted to contain the epidemic, especially in March and April: in the first quarter, investment in construction decreased by 7.9% compared with the previous quarter, while in April sector output decreased by more than 50% compared with March.

Trade in goods and services has been severely affected by the epidemic, especially in the tourism sector; sales in non-EU markets only showed signs of partial recovery in May.

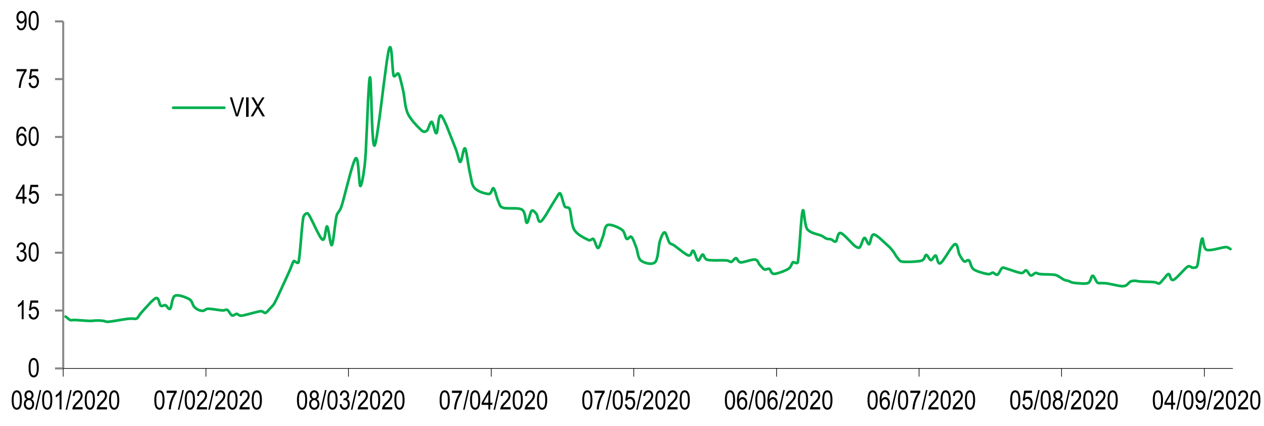
Household spending in the first quarter decreased by 6.6% compared with the previous quarter, mainly due to the decrease in the consumption of semi-durable and durable goods as a result of the decline in real household disposable income (-1.7% compared with the previous quarter), due above all to the contraction in income from payroll employment. Indicators also point to a drastic reduction in consumption in the second quarter, especially for certain types of services and durable goods such as newly registered cars, the market for which virtually disappeared in April and only partially recovered in May and June.

Due to the health emergency, average hours worked per capita fell sharply and the use of the wage supplementation mechanism increased exceptionally in the first quarter of 2020: in the three months from March to May, the number of hours of wage supplementation amounted to 1,746 million (compared with 63.4 million in the previous three months).

Developments in the credit system and in financial markets

The persistence of the crisis connected with the pandemic also had major repercussions on the financial markets, fueling a climate of growing uncertainty and reducing investor confidence.

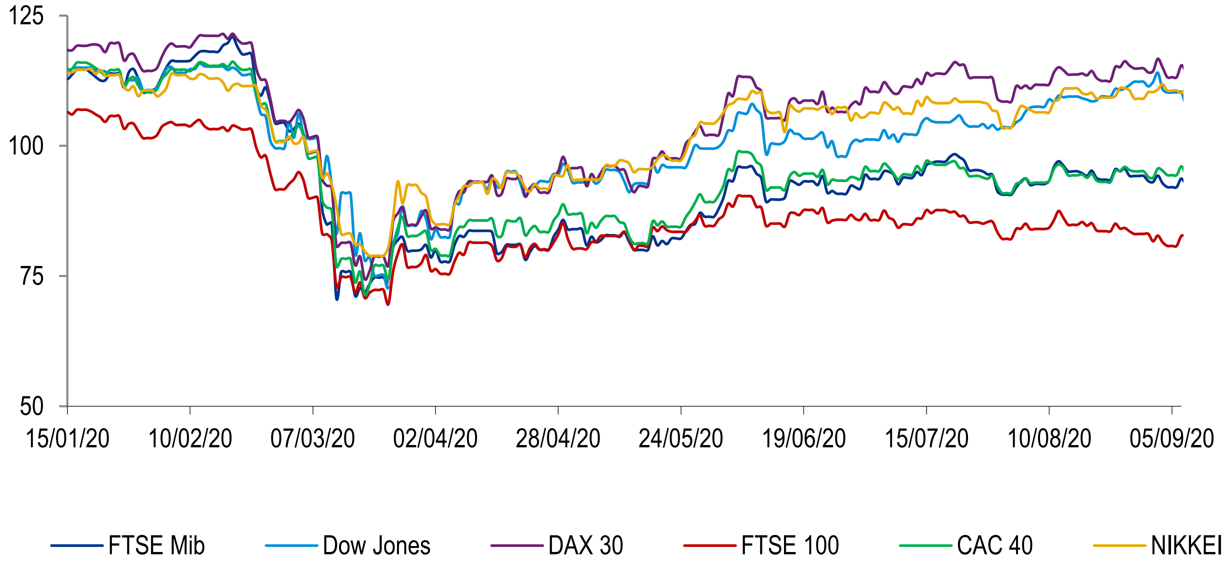
Global financial markets have been affected by the progressive halt in economic activity starting from March 2020. Market tensions culminated in the shock recorded in mid-March: the exceptional volatility in share prices caused the VIX volatility index,[2] which had been essentially stable for months, rose sharply in the first half of March 2020, hitting 80 points, an historically high figure if compared with the 60 points registered at the time of the collapse of the US financial services firm Lehman Brothers in 2008. However, the expansionary stance of monetary policy adopted by the authorities on the one hand and the progressive relaxation of the restrictive measures aimed at containing the effects of the pandemic on the other facilitated a reduction of tensions on the financial markets during the third quarter of the year. This improvement was reflected in a decline in the VIX index, which stabilized at around 30 points between July and September.



Source: Bloomberg

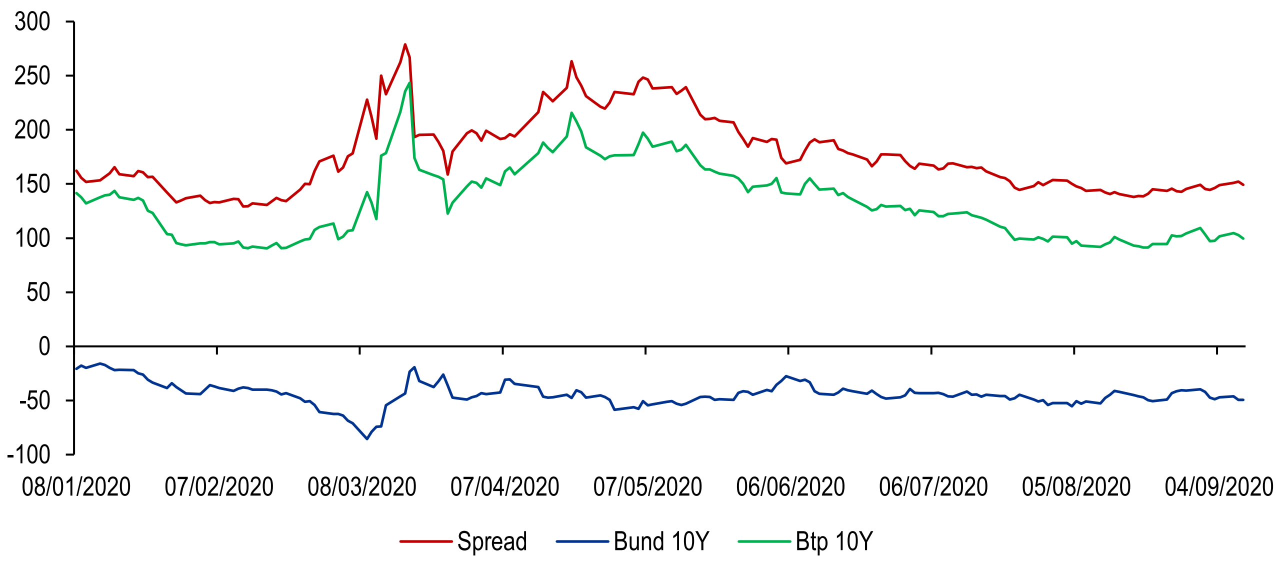
However, conditions on the financial markets remain fragile and extremely sensitive to developments in data on the pandemic. The uncertainty observed on the financial markets triggered a spiral in sales on equity markets, with a consequent decline in the main equity indices, which fell by more than 40% between February and March. In line with the gradual easing of the lockdown on economic activity and the decline in tensions on the financial markets, beginning in April share prices partially recovered the losses recorded during the most acute phase of the pandemic, benefiting from an increase in the propensity for risk of investors. Already at the beginning of July, some of the main stock market indices had returned to levels just below those recorded immediately before the pandemic.

[2] The index measures the implied volatility of options, reflecting the variability expected by analysts for the main US stock index, the S&P 500.



Source: Bloomberg. Figures on a scale of 100

In the third quarter of the year, implied volatility significantly decreased both in equity markets and government bond markets. More specifically, after an initial rise in the BTP-Bund spread, which in mid-March exceeded 300 bps, the yield differential between Italian government securities and their German equivalents has decreased since mid-May, following the measures adopted by monetary and fiscal authorities. The expansionary measures adopted by the ECB contributed significantly to this result.



Source: Bloomberg. Figures in basis points

As underscored in *Economic Bulletin* 3/2020 of the Bank of Italy, during the lockdown and in the months immediately following it, which saw numerous businesses reopen, the role of banks was key in supporting the recovery of the country. The volume of loans to firms increased, mainly thanks to the interventions by the ECB and the measures taken by the Government, which sustained the capacity of credit institutions to meet the huge demand for funds. The increase in loans to businesses in response to the growth in demand, associated with the rise in liquidity needs, mainly came at the medium and long-term end. By contrast, lending to consumer households decreased (-2.5% in the three months ending in May), reflecting their lower propensity to consume during the lockdown and the freeze in the real estate market.

REGULATORY AND SUPERVISORY MEASURES TAKEN IN THE CONTEXT OF THE COVID-19 PANDEMIC

The spread of the COVID-19 pandemic has produced social upheaval and impacted production and aggregate demand in all markets, posing unprecedented economic challenges. The deterioration in the outlook for growth caused a sharp fall in stock market indices and a sharp rise in volatility and risk aversion. Concerns about the profitability of the financial sector have intensified further and the quality of assets in the EU banking sector is expected to deteriorate overall. Moreover, projections of a continuation of the prolonged low interest rate environment is weighing on the profitability and prospective solvency of financial institutions.

In response to the rapid evolution of events, the monetary and fiscal authorities of all major countries have implemented major expansionary measures to support the incomes of households and businesses, ensure the flow credit to the economy and liquidity to the markets. At the same time, European institutions (European Commission, European Council and Parliament), the national and EU supervisory authorities (EBA, ESMA, ECB/SSM, Bank of Italy, SRB) and international standard setters (IASB, Basel Committee) have adopted a series of measures and issued interpretative and application guidelines to help banks mitigate the economic impact of the pandemic. This swift and coordinated response has helped to address and attenuate the impact of the health emergency for the EU financial sector and contributed to preventing the fragmentation of the single market.

The following provides a summary of the main interventions.

Government, EU and national measures

As an immediate response to developments in the crisis, the European institutions promptly approved the activation of the general escape clause of the Stability and Growth Pact, i.e. the set of rules on the compliance of the public accounts of the Member States.

Furthermore, as part of the supranational coordination actions taken to manage the economic fallout of COVID-19, on March 19, 2020 the European Commission set out a series of temporary measures to support the economy for the Member States to adopt – measures subject to specific monitoring and reporting obligations - deemed compatible with the overall regulatory framework on State aid (*Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak*). This temporary framework, based on Article 107, paragraph 3, letter b) of the Treaty on the Functioning of the European Union essentially provides for five main forms of aid:

- direct grants, repayable advances or selective tax advantages to support those undertakings that find themselves facing a sudden unavailability of liquidity owing to a reduction in turnover due to the emergency that has arisen because of COVID-19, in an amount of up to €800,000 per undertaking;
- public guarantees for bank loans taken out by companies. In particular, Member States can provide government guarantees to allow banks to continue lending in order to ensure sufficient liquidity for companies facing a shortage of cash;
- subsidized public loans to businesses. The Member States can grant loans bearing favorable interest rates to firms to cover immediate working capital needs and to support investment. Premiums have been set for the guarantees, to be issued by December 31, 2020, at minimum levels that differ based on loan counterparty and maturity, distinguishing between SMEs and large enterprises;
- guarantees for banks that channel government aid to the real economy. Some Member States plan to leverage banks' existing lending capacity and use them as a channel to support businesses, especially SMEs;
- greater flexibility with regard to short-term export credit insurance as regards the methods for demonstrating that certain countries represent non-marketable risks, effectively allowing states to offer, where necessary, insurance coverage for such credit.

On April 3, 2020, the European Commission extended the Temporary Framework for State Aid adopted in March to allow Member States to accelerate research, testing and production of coronavirus-related products, protect jobs and provide additional support to the economy. The modification of the Temporary Framework also broadened the range of forms of support that Member States can provide to companies in difficulty, for example by making it possible to grant – up to a nominal amount of €0.8 million per firm - interest-free loans, guarantees on loans that cover 100% of the risk or to provide capital. These measures can also be combined with so-called "de minimis" aid (bringing aid per firm up to €1 million) and other forms of support. These options, which will remain in force until the end of this year, are particularly useful for responding to the urgent liquidity needs of SMEs with the necessary speed. On May 8, 2020, the European Commission adopted a new amendment to the Temporary Framework, aimed at further facilitating access to capital and liquidity for companies affected by the crisis, establishing the criteria on the basis of which Member States can recapitalize and provide subordinated debt to companies in difficulty, while preserving a level playing field in the European Union. A third amendment to the Framework was adopted by the Commission on July 2, 2020, providing for (i) the inclusion of micro and small enterprises that were already in difficulty as of December 31, 2019, among the beneficiaries of the aid schemes, provided that they meet certain parameters; (ii) the encouragement of new equity with a significant private participation in the framework of public aid to support companies in difficulty; (iii) the exclusion of the subordination of aid to the relocation of a production activity or other activity of the beneficiary from another country of the European Economic Area (EEA) to the territory of the Member State granting the aid.

On April 14, the European Commission also approved - as part of the Temporary Framework for State Aid - an aid package to support the Italian economy in coping the effects of the COVID-19 pandemic.

Additional support schemes, totaling €150 million, were approved by the Commission on April 21 for the agriculture, forestry, fisheries and aquaculture sectors.

On May 19, 2020, in addition to the aforementioned measures, the European Council established a temporary European employment fund (Support to mitigate Unemployment Risks in Emergency - SURE), financed by the issuance of EU bonds, in support of employment and workers. The fund provides financial assistance worth a total of €100 billion in the form of loans to support and complement national unemployment funds.

On May 26, 2020, the European Investment Bank (EIB) allocated €25 billion to a new pan-European guarantee fund, supported by the Member States, which now enables the EIB Group to activate a total of some €200 billion for the Union economy to limit the adverse impact of COVID-19 on SMEs and other European companies. At least 65% of the loans will be allocated to SMEs, while up to 7% can be allocated to support SMEs and mid-caps in the form of equity capital, growth capital and venture debt.

Finally, on May 27, 2020, the European Commission launched a comprehensive program for recovery - "Next Generation EU" - with funding of €750 billion. It is focused on three main lines of action:

- tools to support Member States' efforts to exit the crisis, overcome its effects and re-emerge stronger;
- measures to stimulate private investment and support companies in difficulty;
- strengthening EU strategic programs to make the single market stronger and more resilient, while addressing the lessons of the crisis, and to accelerate the green and digital transition.

The plan was approved by the European Council on July 21.

Also in July, the European Commission approved four Italian aid schemes to support businesses and workers. In particular, on June 26, 2020 measures based on tax relief and tax credits were approved, with an estimated overall cost of €7.6 billion. They are included in a broader package, part of the so-called “Revival Decree” (described in more detail below). On July 8, 2020, the Commission approved an additional Italian aid scheme, in the total amount of €6.2 billion euros, to support small businesses and self-employed workers active in all economic sectors, with the exception of the financial sector and public administration, in the form of direct grants.

Monetary policy measures adopted by the ECB

At its March 12, 2020 meeting, the ECB Governing Council decided on a comprehensive package of monetary policy measures to address the rising financial tensions, which consists of the following programs:

- starting March 16, the temporary introduction of a series of additional weekly longer-term refinancing operations (LTROs) maturing on the June 24, 2020 TLTRO III settlement date at a rate of -50 basis points: the purpose of the measure is to temporarily inject liquidity into the system on favorable terms to ensure effective support for money markets and in general the euro-area financial system;
- application of more favorable terms to all targeted longer-term refinancing operations (TLTRO III), to be conducted between June 2020 and June 2021, that are outstanding during that time. This will be done by applying an interest rate that is 25 basis points below the average rate applied in the Eurosystem’s main refinancing operations. At the same time, it introduced further support for TLTRO III operations, including raising the maximum amount that can be borrowed to 50% of banks’ stock of eligible loans as at February 28, 2019 and the removal of the maximum limit of 10% of the stock of eligible loans per operation;
- additional net asset purchases (Asset Purchase Program, or APP) of €120 billion will be added until the end of the year;
- creating a temporary envelope of €120 billion available until the end of 2020, in line with other existing asset purchase programs (especially the APP), through more favorable financing conditions for the real economy;
- keeping the key interest rates on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0%, 0.25% and -0.50% respectively;
- keeping the key ECB interest rates at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2%;
- full reinvestment of the principal payments from maturing securities purchased under previous asset purchase programs for an extended period of time past the date when the ECB starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation.

In addition, under the broader framework of measures taken to address the growing emergency linked to COVID-19, on March 18th the ECB launched another quantitative easing (QE) program with an envelope of €750 billion called the “Pandemic Emergency Purchase Programme” (PEPP) to counter the risks posed by the spread of the virus to the transmission of its monetary policy within the euro area. It is a temporary asset purchase program for securities issued by private issuers and individual states and is expected to last until at least the end of the year. These support measures are directed towards all sectors of the economy and apply equally to households, firms, banks and

Member State government. To make these initiatives even more effective, the ECB also expanded the range of eligible assets under the corporate sector purchase program to non-financial commercial paper of sufficient credit quality eligible for purchase.

On April 7, 2020 the ECB Governing Council decided to further lower the interest rate and ease eligibility criteria for the incentive mechanism to expand the availability of collateral, facilitate banks' access to financing and support lending to firms and households by strengthening the use of loans as collateral and by generally increasing the Eurosystem's risk tolerance.

Finally, at its April 30, 2020 meeting, the ECB Governing Council, while leaving the interest rates on monetary policy operations unchanged, took further decisions to strengthen the framework of previous decisions. Specifically:

- it further improved the conditions on TLTRO III operations, reducing the interest rate for the June 2020 - June 2021 period from -25 to -50 basis points. With this measure, the rate for that period could therefore reach -100 bps. As a result of all the interventions noted above, in the period between June 24, 2020 and June 23, 2021, the base interest rate applied to TLTRO-III operations will be 50 basis points lower than the average rate applied on the main refinancing operations of the Eurosystem. Counterparties that maintain their lending levels with respect to the benchmark required in the observation period between March 1, 2020 and March 31, 2021 (the special reference period) will benefit, in the period between June 2020 and June 2021, from an interest rate that is 50 basis points lower than the average rate on the central bank's deposit facility, which cannot exceed -1.00%, while for the remaining days of the life of the transaction the interest rate applied will be equal to the average rate on the ECB deposit facility;
- it temporarily introduced a new series of pandemic emergency longer-term refinancing operations (PELTROs), with a series of monthly operations maturing through September 2021, to support liquidity conditions in the euro area financial system and to contribute to preserving the orderly functioning of money markets by providing effective liquidity support after the expiry of the additional LTROs conducted starting from March 2020;
- it decided to continue net purchases under the asset purchase program (APP) will continue at a monthly pace of €20 billion, together with the new purchases under the additional €120 billion temporary envelope until the end of the year;
- it decided to continue the full reinvestment of the principal payments from maturing securities purchased under the APP.

On April 22, 2020, the Governing Council of the ECB also adopted temporary measures (applicable until September 2021 on the occasion of the first early repayment of TLTRO-III) to mitigate the effect on the availability of marketable assets as collateral of possible rating downgrades resulting from the economic fallout from the coronavirus (COVID-19) pandemic.

More specifically, the following measures were applied, among others:

- from April 8, 2020 (i) the minimum amount threshold for domestic loans at the time they are pledged as collateral is reduced to zero (from the previous €30,000); (ii) the concentration limit envisaged for use as collateral for senior uncovered bank bonds (UBB) issued by a credit institution or by other entities with which that institution has close links has been increased from 2.5% to 10% of the total value of the collateral pool of each counterparty;
- from April 20, 2020, a generalized reduction in haircuts will be applied for all eligible assets (securities and loans). A reduction is also envisaged for the additional risk mitigation measures applied to covered bank bonds for own use and to securities for which a theoretical price is used in their measurement (including covered bank bonds and ABSs).

In addition, as part of the framework concerning additional credit claims (ACCs), from April 20, 2020 the following were introduced:

- a reduction in the haircuts applied to loans pledged both individually and within portfolios;
- a review of other risk mitigation measures specifically envisaged for loan portfolios;
- a change in the frequency - from monthly to quarterly - for transmitting detailed data on the individual loans included in the portfolios (loan-level data).

A "grandfathering" regime was introduced under which marketable assets and issuers who met the minimum credit quality requirements for the eligibility of collateral as of April 7, 2020 (BBB- for all assets, except ABSs) continue to be eligible in the event of rating downgrades, as long as their rating remains at or above credit quality step 5 on the Eurosystem's harmonized rating scale (equivalent to a BB rating). ABSs to which a minimum rating threshold equal to CQS2 (equivalent to a rating of A-) is applied within the ECB's General Framework will continue to be eligible as long as their rating remains at or above CQS4 (equivalent to a BB+ rating). The assets eligible for this grandfathering will be subject to haircuts based on their actual ratings.

These temporary measures will remain in place until the end of the PEPP. By the end of 2020, the Governing Council will assess the possible need for an extension to continue to ensure the adequate availability of collateral for counterparties.

Main measures taken in Italy to support the economy that have an impact on the banking system

Given the extraordinary urgency of mitigating the negative effects that the COVID-19 emergency is having on the national socio-economic fabric, the Italian Government approved Decree Law 18 of March 17, 2020, "Measures to strengthen the national health service and provide economic support for households, workers and firms connected with the COVID-19 emergency" (hereinafter the "Decree" or the "Cure Italy

Decree”). Title III is fully dedicated to liquidity support measures delivered through the banking system and aims to introduce measures in favor of SMEs, firms in general, self-employed workers and professionals.

As established by Article 49 of the decree, all SMEs located in Italy can, for a period of nine months from the entry into effect of the decree, take advantage of, among other things, the following exemptions from the ordinary rules for the Central Guarantee Fund pursuant to Law 662/96: (i) the guarantees will be provided at no charge; (ii) the maximum amount guaranteed per debtor is increased to €5 million; (iii) for direct guarantees, the maximum coverage percentage is set at 80% of the amount of each financing operations, up to a maximum amount of €1.5 million per firm; (iv) for reinsurance operations, the maximum coverage percentage is set at 90% of the amount guaranteed by loan guarantee consortiums or other guarantee funds; (v) the guarantee, until today limited to just portfolio guarantees, is eligible for use in debt renegotiation provided that the lender grants new financing equal to at least 10% of the remaining debt; and (vi) the possibility to combine the Fund’s guarantee with other forms of guarantees, including mortgages, obtained from the lender for real estate investments in the tourism and hospitality sector and real estate assets for an amount above €0.5 million and with a minimum maturity of 10 years.

Article 54 of the decree extends the scope of application of the solidarity fund for loans for the purchase of a primary residence (“Gasparrini Fund”) to self-employed workers and professionals who declare, pursuant to Articles 46 and 47 of Presidential Decree 445/2000, that they have registered, in a quarter after February 21, 2020 or in a shorter span of time between the date of the request and such date, that they suffered a drop in turnover of more than 33% compared with the final quarter of 2019 as a result of the closing of or restriction on their activity as a result of the implementation of the measures adopted by the competent authorities to handle the COVID-19 emergency. The exemption from the ordinary rules of the fund lasts for nine months from the entry into force of the decree. The Gasparrini Fund will pay compensatory interest in the amount of 50% of the interest accrued on the remaining debt during the suspension period.

Article 55 of the decree contains measures to promote the disposal of non-performing loans by December 31, 2020 with the possibility of transforming into tax credits the deferred tax assets deriving from: (i) tax losses not yet computed to reduce taxable income at the disposal date; and (ii) the amount of the notional return exceeding total net income, not yet deducted nor used as a tax credit at the disposal date (excess allowance for corporate equity). These two components can be considered in a maximum amount not to exceed 20% of the nominal value of the loans sold, with a ceiling of €2 billion for the gross value of loans sold per firm (determined by taking account of all the disposals completed by December 31, 2020 by companies connected by relationships of control). These provisions are not applicable to companies in a state of distress (or risk of distress) or insolvency.

Article 56 of the decree contains financial support measures for firms, introducing a special moratorium to help firms overcome the most critical phase of the decline in production connected with COVID-19. Microfirms and SMEs, as defined by European Commission Recommendation 2003/361/EC, headquartered in Italy, can apply to the following financial support measures: (i) for revocable credit facilities and for loans granted against advances on receivables outstanding at February 29, 2020 or, if greater, at the date of publication of the decree, the amounts agreed, both for the drawn part and the part still undrawn, cannot be revoked in whole or in part until September 30, 2020. For the increase in uses that occurs between the date of the decree and September 30, 2020 it will be possible to obtain the guarantee from the Central Guarantee Fund pursuant to Law 662/96; (ii) for loans not repayable in instalments maturing before September 30, 2020, the contracts have been extended, along with the respective ancillary elements and without any formalities, until September 30, 2020 under the same terms and conditions. A guarantee from the Central Guarantee Fund pursuant to Law 662/96 can be obtained for such contracts; (iii) for mortgages and other loans repaid in instalments, including those completed through the granting of agricultural promissory notes, the payment of mortgage installments or lease payments maturing before September 30, 2020 is suspended until September 30, 2020 and the repayment schedule for the suspended installments or lease payments is deferred, along with the respective ancillary elements and without any formalities, using methods that ensure that there are no new or higher costs for both parties; giving firms the option to request suspension only for repayment of principal amounts. It is also possible to obtain a guarantee from the Central Guarantee Fund pursuant to Law 662/96 in an amount equal to 33% of the individual mortgage installments or installment payments on loan or lease payments that mature by September 30, 2020 and that were suspended.

Article 57 of the decree sets out liquidity support measures for firms hit by the epidemiological emergency through guarantee mechanisms, allowing banks – with the support of Cassa Depositi e Prestiti SpA (CDP) through a credit line and/or portfolio guarantees, including on first losses – to disburse loans in any form to firms that have suffered a reduction in turnover owing to the emergency; the public guarantee – for payment, explicit, unconditional and irrevocable – is issued in favor of CDP on first demand up to a maximum of 80% of the exposure assumed.

Additional measures were adopted during ratification of the decree, including an expansion of the pool of beneficiaries of the solidarity fund for principal residence mortgage loans, the suspension of instalments on loans from the solidarity fund for usury victims and the suspension of all enforcement proceedings concerning those loans.

On April 6, 2020, the Council of Ministers approved another decree (the “Liquidity Decree”) which introduces a series of urgent measures regarding access to credit and deferring certain obligations for firms (and households) as well as special powers in strategically important sectors and in the justice system. The decree further strengthens the Central Guarantee Fund for SMEs, already expanded by the “Cure Italy” Decree and introduces special measures for credit access, liquidity support, exports, international expansion, and investment.

The main areas in which the decree intervenes are: (i) access to credit and deferral of some tax payments; (ii) bankruptcy and corporate law; and (iii) the expansion of the rules on the State’s special powers in strategically important sectors (golden power). With regard to access to credit, the decree considerably strengthened the system of public guarantees, which have been made available to firms of all sizes, with coverage percentages of between 70% and 90% for loans granted by intermediaries, which can arrive at 100% for smaller firms and loans.

The primary measures introduced regard: (i) the activation of a new line of public guarantees, granted through SACE SpA, a CDP Group company, for a total of €200 billion to be utilized by the end of the year (of which €30 billion reserved for SMEs); (ii) the expansion, up to 90%, of the Ministry of Economy and Finance's portion of the reinsurance of the export credit backed by SACE; and (iii) for 2020, the operations of the Central Guarantee Fund for SMEs will be structured differently, including an increase in the coverage percentages for loans and expansion of the range of potential beneficiaries.

The decree also introduces measures regarding the bankruptcy laws to prevent the initiation– until the end of the state of emergency – of bankruptcy or other proceedings based on insolvency against companies and to sterilize the emergency period for the purposes of calculating deadlines in actions to protect creditors.

Finally, with Decree Law 34/2020 containing urgent measures in the areas of healthcare, support for employment and the economy as well as social policies connected with the COVID-19 emergency (the "Revival Decree"), approved in May, the Government introduced additional measures, totaling over €100 billion, to provide liquidity and support for Italian undertakings (mainly SMEs), ensuring that they can survive during the emergency and helping them to revive operations when the recovery comes.

The measures include:

- the extension of the moratorium in favor of micro-enterprises and SMEs provided for by Article 56 of the Cure Italy Decree to include subsidized loans guaranteed by the State granted to companies following the earthquakes of 2012 and 2016 for the payment of taxes, contributions and bonuses already suspended that still had not been paid on the date of entry into force of the respective subsidy measures;
- the refinancing of the Guarantee Fund for SMEs (with the simplification of benefit requirements) and the Guarantee Fund for principal residences;
- strengthening the system of innovative start-ups, to facilitate access to liquidity;
- aid in the form of guarantees from the regions and autonomous provinces on loans to businesses;
- aid in the form of subsidized interest rates on business loans;
- structural measures aimed at encouraging investment, in both equity and debt capital, in the real economy and, in particular, in unlisted companies, strengthening the capacity of long-term savings plans to channel private savings to the business world;
- a SACE guarantee for insurance companies in the credit sector equal to 90% of the indemnities generated by exposures to short-term trade receivables;
- measures to facilitate the transfer of tax credits to banks and financial intermediaries;
- the definitive abolition of the safeguard clauses concerning increases in VAT rates and excise duties.

In addition, the decree contains specific measures to safeguard the banking system and, in particular, public guarantees for new bank bond issues and public support in the liquidation of small banks (excluding mutual banks).

Banking supervision measures adopted by the ECB-SSM and the Bank of Italy

As regards banking supervision, the ECB, in line with the EBA guidelines, announced – through two communications of March 12 and 20, 2020 – measures in support of regulatory capital and operational relief for euro-area banks, in order to not compromise their capacity to finance the real economy, especially in light of the temporary difficulties faced by households and firms owing to the effects of the COVID-19 pandemic.

With this objective, the following measures were defined:

- the possibility of temporarily operating below the capital level specified by the Pillar II Capital Guidance (P2G), the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR);
- the orientation in favor of an easing of the countercyclical capital buffer (CCyB) by national authorities;
- the possibility of partially using Additional Tier 1 capital and Tier 2 capital to satisfy the Pillar II requirement, bringing forward a measure contained in the Capital Requirements Directive V (CRDV), which was expected to enter force in 2021. These measures help free up capital that banks can use to support the economy. In this regard, the ECB has underscored the expectation that banks will not use the positive impact of these measures to increase the distribution of dividends or the payment of variable bonuses;
- the application - to exposures that will become non-performing and benefit from government guarantees granted for the COVID-19 emergency - of the preferential treatment of non-performing exposures already envisaged for loans guaranteed by official export credit agencies (i.e. minimum coverage of 0% for seven years as part of the so-called "calendar provisioning" envisaged in the Addendum);

- the provision for exposures guaranteed by governments as part of State measures undertaken in response to COVID-19 to benefit from a high degree of flexibility regarding the treatment of non-performing loans (NPLs) in terms of classification of UTP loans and provisioning in the income statement;
- a certain degree of operational flexibility granted by the competent authorities in implementing specific banking supervision measures;
- with regard to the application of the expected credit losses (ECL) governed by IFRS 9, guidance for banks concerning the need to (i) apply the transitional arrangements provided for by Article 473(a) of the CRR (phase-in of IFRS 9) and (ii) sufficiently take into account, in the predictive models used to estimate the cost of credit risk, of the long-term outlook characterized by greater stability. In this regard, the ECB reserves the right to provide banks with macroeconomic scenarios in application of the provisioning policies under IFRS 9.

In addition, the ECB, in light of the changed context and to limit any further impact on banks at this time of particular financial and operational strain, announced that “it will deploy full flexibility when discussing with banks the implementation of NPL reduction strategies, taking into account the extraordinary nature of current market conditions”, in addition to taking into consideration the reprogramming of supervisory activities with possible extension of the deadlines for some non-critical supervisory measures.

On March 20, 2020 the Bank of Italy, in line with the actions taken by the ECB and the EBA Guidelines, extended the deadlines for a number of important reporting obligations by banks (60 days for the submission of ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process), recovery plans, and reports on outsourcing; 150 days for the submission of the first Report on Operational Risks and Safety for banks; and 90 days for NPL plans for less-significant banks).

Communications and application guidance issued by authorities, standard setters and international bodies

Aware of how the weakening of the economy as a result of the containment measures and the recession is putting a severe strain on the financial capacities of consumers and SMEs, so much so that the reduced liquidity in the system could lead to an increase in defaults on loans and the need for banks to increase the provisions recorded on their balance sheets, national, EU and international authorities and bodies have intervened with targeted corrective measures and guidelines.

In order to proactively assist banking activity in response to the complex situation created by the gradual spread of the COVID-19 pandemic, on March 25, 2020, the EBA, following on its announcement of March 12, clarified:

- interpretations connected with the prudential framework for non-performing exposures, forbearance, IFRS 9, coordinated with the simultaneous statement of the European Securities and Markets Authority (ESMA) on the accounting implications of the calculation of expected credit losses in accordance with the standard;
- measures for consumer protection and payments systems;
- further actions to support banks’ focus on key operations and to limit any non-essential demands in the short term.

As for the first point, in reiterating its full support for the measures taken by national governments and EU bodies to mitigate the potential systemic risk of the impact of the COVID-19 pandemic, the EBA clarified that the general moratorium on payments, directed at all borrowers, does not result in automatic classification of loans as in default, unlikely-to-pay or forborne. It emphasized the need to assess the debtor’s financial difficulties on a case-by-case basis and to understand that the operational capability of banks in making in-depth assessments can be more limited under the current circumstances and that short-term flexibility in operational requirements taking a mass approach or, if a bank has to make an individual assessment of the likelihood of the counterparty’s insolvency, recommending that it should prioritize the analysis using their risk-based approach.

More specifically, the EBA stressed that moratoriums in response to the COVID-19 epidemic, to the extent they are not borrower specific but rather addressed to broad ranges of product classes or customers, do not have to be automatically classified as forbearance measures for accounting purposes and as regards the prudential definition of default. However, this does not remove the obligations for credit institutions to assess the credit quality of the exposures benefiting from these measures and identify any situation of borrowers being unlikely to pay accordingly.

On April 2, 2020, the EBA also published the document "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis", which provides the detailed criteria that must be fulfilled for public and private moratoriums granted by June 30, 2020[3] to avoid classification of exposures under the definition of forborne or defaulted under a restructuring. The guidelines also establish that banks must continue to promptly identify borrowers in situations of possible financial difficulty and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines are addressed to both moratorium measures established under legislation and those initiated by private-sector actors that have a general scope, i.e. have been granted by banks in order to prevent systemic risk by offering broad support for all companies temporarily in difficulty due to the pandemic.

[3] Deadline extended to September 30 with a subsequent EBA decision of June 18.

The conditions and criteria that must be simultaneously fulfilled in order to be able to consider a moratorium as of general scope are specified:

- the moratorium must be based on national law or private initiative. In the latter case, the measure must be based on a broadly agreed initiative within the banking sector in order to ensure uniformity in the moratoriums granted by the various credit institutions;
- the moratorium must apply to broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, type of exposure (mortgage, leases, etc.), belonging to an industry that has been especially affected by the pandemic, etc.;
- the measure must consist exclusively of a change in payment schedules and, therefore, may consist in the suspension of payments, their rescheduling or a temporary reduction of the principal and/or interest to be paid. The moratorium cannot involve the modification of other contractual clauses (such as the interest rate). The EBA clarifies that if the concessions granted in the context of COVID-19 do not substantively modify the present value of cash flows following the change, they shall not be considered onerous and the exposures shall not be classified as in default, as the relief represents temporary support for those who are momentarily unable to fulfill their contractual obligations due to the interruption of business as a result of the pandemic;
- the moratorium must offer the same terms and conditions to all eligible beneficiaries;
- the measure shall not apply to loans granted after the date on which the moratorium was announced;
- the moratorium must have been organized to address the emergency created by the COVID-19 pandemic and applied before June 30, 2020 (as noted earlier, this deadline was subsequently rescheduled to September 30, 2020).

As noted, the guidelines equate moratoriums granted on a private basis in response to COVID-19 with legislative moratoriums. Consequently, "private" moratoriums also benefit from the suspension of time limits in calculating past due positions as long as they comply with the above requirements. That said, the EBA again emphasizes that banks are in any event required to evaluate the possible classification of customers benefiting from moratoriums as unlikely to pay, considering the borrower's ability to comply with the new payment plan regardless of any public guarantee and excluding the reclassification of these loans as distressed restructurings.

Recognizing that there can be difficulties in carrying out individual evaluations for the purposes of classification as non-performing, the EBA specifies that in this case banks must adopt a risk-based approach (i.e., taking into account - for example - the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail). Accordingly, following the suspensions linked to the COVID-19 moratoriums, it is important to identify exposures that can be in arrears with respect to the new payment plans for the purpose of promptly classifying them as non-performing.

With regard to the second point, the EBA invited financial institutions to act in the interest of the consumer, in particular when engaging with customers regarding temporary measures for consumer and mortgage loans. In this case as well, the EBA stressed that these measures may not automatically lead to loan reclassification from a prudential perspective and should not automatically lead to negative implications for the debtor's credit rating. Finally, it invited the system to note the importance of careful consideration from a legal and reputational perspective of any new and additional charges specifically introduced in relation to contingency measures. With reference to payment systems, the EBA called on payment services providers to facilitate consumers' ability to make contactless payments by making use of the exemption from strong customer authentication (SCA).

As for the third point, in order to limit any non-essential demands on banks in the short term, the EBA has reviewed certain ongoing activities, extending the deadlines of public consultations and, especially, the remittance date for funding plan data and, in coordination with the Basel Committee, the submission date for the QIS based on 2019 data.

Pursuant to IFRS 9, the measurement of expected credit losses (or, in any case, losses on all financial instruments that fall within the scope of the standard) must always be the result of a joint analysis of the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions (particular in this case is the reference to the inclusion of "forward-looking" macroeconomic scenarios).

The determination of whether a significant increase in credit risk has occurred, as required by the standard, is a multifactorial and holistic analysis that takes account of changes in the risk of default over the expected life of the financial instruments. In the model for assessing the cost of credit risk introduced with IFRS 9, particular importance is assumed by information on the future macroeconomic scenarios in which the Group may find itself operating and which influence the situation of borrowers with regard to both the assessment of risk of the migration of exposures to lower quality classes and the amounts effectively recoverable on impaired exposures.

The crisis engendered by the COVID-19 pandemic has produced a sharp deterioration in the economic outlook. The environment of pronounced uncertainty limits the reliability of the information available, making it extremely difficult to produce detailed long-term forecasts.

In this regard, various international authorities or bodies have intervened, providing guidance to promote consistent application of

International Financial Reporting Standards (IFRS) in the European Union (EU) and avoid divergence in practice on the application of IFRS 9 Financial Instruments in the specific context of the COVID-19 outbreak.

In a communication dated March 20, 2020, the ECB expressed its views on forward-looking IFRS 9 assessments, even though this is not strictly within the scope of its prudential supervisory duties, recommending that banks avoid excessively procyclical assumptions in their models to determine provisions. The ECB invited institutions to "give a greater weight to long-term macroeconomic forecasts evidenced by historical information when estimating long-term expected credit losses". On April 1, the central bank sent a letter to significant banks entitled "Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic" to provide additional guidance and references on the inclusion of forward-looking information in the determination of ECLs in accordance with IFRS 9 in the context of the COVID-19 pandemic. The letter once again refers to the ECB's previously expressed expectations regarding the need to avoid the use of excessively procyclical assumptions, in consideration of the heightened uncertainty of the context and the very limited availability of "reasonable and supportable" information.

On March 25, 2020, ESMA and EBA also intervened on the issue to emphasize - with regard to forward-looking estimates - the complexity of the context, substantially confirming the observations of the ECB mentioned above.

In its statement, ESMA stressed how IFRS 9 presents a certain degree of flexibility in determining the indicators for the assessment of a significant increase in credit risk, clarifying that the application of a public or private moratorium as a relief instrument for debtors that are temporarily unable to comply with the terms of payment due to the effects of the COVID-19 outbreak should not be regarded as automatically constituting a significant increase in credit risk.

The authority, in particular, emphasizes that when economic support programs for businesses implemented by governments reduce the risk of default on a financial instrument, they must be appropriately considered in the assessment of whether a significant increase in credit risk has occurred. Accordingly, a moratorium should not in itself be considered representative of a significant increase in the credit risk of a financial instrument. In addition, the specific circumstances related to the COVID-19 epidemic represent sufficient justification to rebut the presumption that payments more than thirty days past due are evidence of a significant increase in credit risk. This provision also represent a significant change from the ordinary rules of IFRS 9 and will have an impact on transfers to stage 2. ESMA also invites institutions to consider collective assessments, an approach also encouraged by the ECB, of significant increases in credit risk. In other words, given the difficulty of identifying factors or indicators regarding riskiness at the level of the individual borrower, the authorities are asking institutions to use a top-down approach, i.e. to start with the risk level of specific portfolios (e.g. the most affected sectors, such as hotels, tourism or transport) and creditworthiness prior to the COVID-19 pandemic.

The EBA also emphasizes the need to distinguish - for staging purposes between exposures that will experience a temporary deterioration in credit standing and those that will incur a structural deterioration: transfer to stage 2 should be considered only for the latter.

With regard to accounting for the effects (profit/loss from concessions) associated with contractual modifications deriving from customer support measures, ESMA believes that institutions should assess whether economic support and relief measures could result in a modification of the financial assets and, consequently, whether the modification leads to their derecognition. Such assessment should include both qualitative and quantitative criteria. In light of the current circumstances, the authority reiterates that it is considered unlikely that a modification could be considered substantial and lead to derecognition if the financial support measures will only provide temporary relief to debtors affected by the COVID-19 pandemic and the net economic value of the loan is not significantly affected. It is however necessary that the entities provide adequate disclosure of the accounting policies adopted to determine whether a modification is substantial.

Finally, with regard to public guarantees provided in conjunction with ex-lege moratoriums or other support measures that may have different features in the various jurisdictions but share the fundamental one of partial or complete recovery of the loans affected by the support measures, ESMA emphasizes that under the provisions of IFRS 9 such measures impact the measurement of expected credit losses to the extent that they can be considered an integral part of the contractual terms governing the loans and are not recognized separately. In this regard, ESMA notes, with regard to the first aspect, that credit enhancements do not need to be explicitly part of the contractual terms (as envisaged by the Transition Resource Group for Impairment in December 2015): this is the case, for example, of public guarantees provided in conjunction with broadly applicable ex-lege debt moratoriums or economic support measures. In any event, the authority highlights the importance that such judgements be clearly disclosed in their financial statements.

On March 27, 2020, the International Accounting Standards Board (IASB) published the document "*COVID-19 – Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic*", the contents of which are consistent with the guidelines already provided by the EBA, ECB and ESMA. Briefly, the document does not change IFRS 9 but suggests an interpretation in the current pandemic environment. Specifically, while stating that ECL estimates must take into account all available information, it indicates that entities should not continue to apply their existing ECL methodology mechanically and acknowledges the difficulty of incorporating the effects of COVID-19 and correlating government support measures in current models. If banks find themselves in such a situation, they should consider making post-model management adjustments. More specifically: (i) agreeing on tolerance measures or moratoriums should not automatically result in a significant increase in credit risk; (ii) IFRS 9 does not provide bright lines or a mechanistic approach to determining ECL; (iii) although difficult in the current environment to make ECL estimates, it is necessary to monitor the facts and information available. The IASB also encourages the industry to follow the guidelines provided by the other authorities (especially the ECB, EBA and ESMA), with whom it has engaged.

In line with the ESMA statements published in March 2020, Consob published warning notice 6/20 of April 9, 2020 "COVID-19 – Drawing attention to financial reporting" to underscore the importance for issuers to provide updated information (i) on the risks associated with COVID-19 that may have an impact on performance or financial position; (ii) on any measures taken or planned to mitigate such risks; and (iii) an indication of a qualitative and/or quantitative nature of the potential impacts that have been considered in estimating the company's future performance. In addition, in reports after December 31, 2019, directors are required to carefully evaluate how up to date the business planning is, in order to consider the main risks related to the pandemic that could preclude the achievement of the strategic objectives and/or compromise the company's ability to continue as a going concern. These elements could be an indication that the assets recorded in the financial statements can be impaired, thus highlighting the need to estimate the recoverable value of the asset. Specific assessments should also be carried out on other areas of the balance sheet that could be affected by the crisis in question.

On July 16, 2020, Consob drew the attention of issuers to compliance with the recommendations provided by ESMA in its public statement "Implications of the COVID-19 outbreak on the half-yearly financial reports" of May 20, 2020. In particular, Consob stressed that the evaluations that the directors are required to make pursuant to IAS 36 "Impairment of assets" (IAS 36 paragraphs 9 and 12) take on importance in the preparation of the next half-yearly reports, and in particular it must be assessed whether the effects of the COVID-19 epidemic constitute indicators of impairment such as to require specific checks to be carried out on the recoverability of assets. The authority underlines the importance of the description of the significant uncertainties and risks associated with COVID-19. With reference to the description of the impact of the COVID-19 outbreak on the income statement, issuers should provide information, including on a quantitative basis, in a single note in their interim financial statements, in order to enable readers of those statements to understand the overall impact of the pandemic on the economic performance of the period. Furthermore, in relation to the disclosure to be made in the interim reports on operations, Consob recommends that issuers provide, where available, detailed and specific information in relation to the impacts of COVID-19 on strategic planning and plan targets, economic performance, financial position and cash flows..

On April 3 the Basel Committee intervened, stating how the extraordinary measures taken to alleviate the economic and financial impact of COVID-19 must be reflected in capital requirements.

As better explained herein, and based on the foundation of the earlier guidance and recommendations, on April 28, 2020 the European Commission presented a banking package amending the CRR (called the CRR quick fix due to the special legislative process involved) to facilitate lending to households and businesses to mitigate the economic impact of the COVID-19. The package includes an interpretive communication, which confirms the recent statements on the use of flexibility that is embedded in the existing accounting and prudential rules expressed by international standard setters and European sector authorities, as well as some proposed modifications to EU banking regulations, to be adopted quickly so that they can come into force by the summer. The legislative measures have the stated objective of maximizing banks' lending capacity and to absorb losses related to the COVID-19 outbreak, while remaining consistent with the overall prudential framework.

Amendments to the CRR (the CRR Quick Fix)

On June 26, 2020, Regulation (EU) 2020/873 amending the CRR and CRR II was published in the *Official Journal of the European Union* in order to adapt the prudential regulatory framework to the needs arising in relation to the COVID-19 emergency. The regulation introduces, inter alia, measures to ease capital requirements that in most cases have been in force since June 27, 2020, such as:

- amendments to the transitional arrangements for IFRS 9 that allow banks to sterilize not only the static and dynamic components of the filter introduced in 2018 but also the capital impacts associated with the increase in provisions compared with January 1, 2020 on performing loans (i.e., those in stages 1 and 2) in the 2020-2024 period (the “new” dynamic component). More specifically, the regulation allows institutions to add back to their Common Equity Tier 1 capital a progressively decreasing portion of the increase in provisions, equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024. On an optional basis, institutions may derogate from the application of the factors graduating provisions (symmetrical to the adjustment made to CET1 for all the static, old dynamic and new dynamic phase-in components) against the 100% weighting of the adjustment made to CET1;

- the introduction of a prudential filter relating to the OCI reserve on government securities to mitigate the negative impact of the volatility in financial markets and central government debt on regulatory capital. The temporary treatment, applicable from January 1, 2020 to December 31, 2022, would allow the exclusion, where institutions should elect to apply the treatment, from the calculation of CET1 items of a progressively decreasing amount (100% in 2020, 70% in 2021, 40% in 2022) of unrealized gains and losses accumulated since December 31, 2019 and recognized in the balance sheet under “fair value changes of debt instruments measured at fair value through other comprehensive income” corresponding to exposures to central governments, provided that such exposures are not classified as credit impaired financial assets;

- the early application of the new, more favorable, measures introduced by CRR II regarding: (i) the SME supporting factor, (ii) the infrastructure supporting factor and (iii) more favorable treatment of loans guaranteed by the transfer of salaries/pensions. The date of application of these measures was brought forward to June 27, 2020, the date of entry into force of the regulation, from the original date of June 28, 2021 envisaged in the CRR II;

- the introduction of temporary treatment for public debt issued in the currency of another Member State. Until December 31, 2024, exposures to the central governments and central banks of Member States, where such exposures are denominated and funded in the domestic currency of another Member State, shall receive more favorable credit risk weights. In addition, the competent authorities may increase the limits on the size of exposures banks are allowed to incur for the purposes of regulating large exposures;

- the immediate application of the EBA RTSs on the prudential treatment of software. The CRR II introduced provisions to modify the regulatory treatment of software assets, providing for their exemption from deductions from CET 1, with the EBA being charged with developing the related technical standards (currently in consultation) to specify under which conditions the exemption is applicable. The date of application of the new prudential treatment of software was set in the CRR II at 12 months from the entry into force of those technical standards. To free up capital and support banks' digital investments, Regulation 2020/873 advances the date of application to the date of entry into force of the technical standards;

- with regard to the prudential backstop rules for non-performing loans ("calendar provisioning"), an extension of the preferential treatment of loans guaranteed by export credit agencies (SACE in Italy) with regard to provisioning obligations (0% for the first 7 years, 100% only in the eighth year) for all exposures guaranteed by governments (limited to the guaranteed portion of the exposure);

- the temporary exclusion, subject to the exercise of discretion by the competent authority, of certain exposures to central banks from the calculation of the leverage ratio. The discretion in this matter was exercised by the ECB on September 16, 2020;

- the introduction of a temporary method for calculating the exposure value of regular-way purchases and sales awaiting settlement for the purposes of the leverage ratio, which provides for the possibility of offsetting the entire nominal value of the payables associated with regular-way purchases with the full nominal value of the cash receivables for regular-way sales awaiting settlement, under certain conditions.

3. DISTINGUISHING CHARACTERISTICS OF THE ICBG, GEOGRAPHICAL DISTRIBUTION, STRUCTURAL ARRANGEMENTS, SPECIFIC NATURE OF THE AFFILICATED BANKS AND THEIR MISSION

The procedure for the establishment and authorization of the Iccrea Cooperative Banking Group, which began following the 2016 reform of the mutual banking industry, was completed with the registration of the Group by the Bank of Italy in the Register of Banking Groups on March 4, 2019.

The mutual banks joined the Group by submitting to their shareholders' meetings the amendments to their articles of association necessary for participation in the Group, defined in agreement between the participating mutual banks and the Parent Company, and subsequently signing the Cohesion Contract and the Guarantee Agreement, which constitute the legal conditions for their participation in the Group.

This implemented the reform of Italy's Consolidated Banking Act (Legislative Decree no. 385/1993) with Law 49/2016 and the associated implementing measures of the Bank of Italy. The reform of the Consolidated Banking Act sought to ensure the cohesion and strength of the mutual banking segment, while pursuing the objectives of stability, efficiency and competitiveness and, at the same time, the necessary balance between the need to enhance the autonomy and ties to the local communities that are typical of mutual banks and the need for unity in strategic action. In essence, the reform did not bring changes to the rules in Italy governing the cooperative, local nature of mutual banks, but rather removed any obstacles that, in this increasingly complex market and legislative environment, now even more affected by the impact of the COVOD-19 pandemic, could have, over the medium to long term, reduced the ability of mutual banks to serve their communities with their traditional business model and the small size of each individual bank.

The Cohesion Contract

The approach adopted calls for formation of a group based on contractual arrangements between the Parent Company and the affiliated mutual banks. The mutual banking group therefore hinges on this Cohesion Contract (as per Article 37-bis of the Consolidated Banking Act), by which the affiliated banks grant the Parent Company powers of management and coordination, exercised on a proportionate basis and as a function of the relative health of the affiliated banks themselves (i.e. a risk-based approach).

The ICBG Cohesion Contract establishes the rights and obligations of the members of the Iccrea Cooperative Banking Group and also acknowledges the powers of direction and coordination granted to the Parent Company. These powers are to be exercised, in particular, in areas such as corporate governance, strategic planning, risk management, internal controls, information systems, and guarantees. In this regard, in addition to the general powers of guidance and coordination of the group and of subsidiaries, the Cohesion Contract also governs the specific powers needed in order to ensure the unity and effectiveness of the systems of management and control at the consolidated level and compliance with the requirements of prudence, with the reporting obligations of the group and all its members, and with other banking and financial-service laws and regulations. To these powers, we can add those that are specifically related to governance of the affiliated banks, particularly as concerns the formation and appointment of corporate bodies and officers by way of provisions in the standard articles of association of the affiliated banks and specific rules for Group elections and of meetings of shareholders, rules concerning cases in which the Parent Company may appoint, oppose, or remove one or more members of the boards of directors and boards of auditors of the affiliated banks, until establishment of a majority, as well as related procedures. As such, these powers entail an exception to the rule maintained in the Consolidated Banking Act for mutual banks according to which appointment of members of the boards of directors and of auditors is within the purview of the competent corporate bodies.

The Parent Company is required to exercise its powers of management and coordination with the goal of ensuring the stability of the Group and all its members in full compliance with the principle of sound, prudent management, while supporting the affiliated banks in their pursuit of the objectives established in their articles of the association and promoting the cooperative spirit and local nature of the mutual banks and of the Group as a whole. Involvement of the affiliated banks also occurs in specific occasions for consultation with the mutual banks, which are also established in the Consolidated Banking Act and meet at least annually, in which they issue non-binding opinions to the Parent Company.

The Guarantee Scheme

The Cohesion Contract calls for the joint and several guarantee of all obligations assumed by the Parent Company and by the affiliated banks in observance of the principles of prudence applicable to banking groups and to the individual affiliated banks as a further necessary factor in the establishment of the ICBG. This guarantee is an integral part of the Cohesion Contract, and acceptance of this provision is mandatory when signing the Cohesion Contract and becoming a member of the Iccrea Cooperative Banking Group. This cross-guarantee between the Parent Company and the affiliated banks is governed by contract with the effect of qualifying the liabilities of the Parent Company and of the affiliated banks as joint and several obligations of all those who accept the agreement. In other words, all affiliated banks and the Parent Company are bound – both internally and externally – by all obligations assumed by the Parent Company or by any affiliated bank.

The guarantee also calls for intercompany financial support mechanisms under which the members of the group provide mutual support to ensure solvency and liquidity, particularly with regard to compliance with the requirements of prudence and those of the supervisory authorities as well as to avoid, where necessary, being subject to the insolvency procedures of Legislative Decree 180/2015 or the compulsory liquidation procedures of Article 80 *et seq.* of the Consolidated Banking Act.

Any necessary injections of capital or liquidity to support the affiliated banks – taking account of the output of the early warning system (EWS) – in order to ensure the solvency and liquidity of the individual members of the group are to be carried out by the Parent Company alone, drawing on the financial resources made available by the various members in execution of the Guarantee Agreement.

Support efforts may include:

- capitalization measures (including the subscription of CET1-eligible financing shares issued by the affiliated banks in accordance with Article 150-ter of the Consolidated Banking Act) making use of the Ex Ante Share of the readily available funds;
- liquidity support measures (e.g. financing operations of appropriately established term or securities lending) making use of the Ex Post Quota of the readily available funds by way of special-purpose lines of credit or using ex ante funds;
- any other form of intervention deemed appropriate by the Parent Company.

In order to ensure the ready availability of the funds needed to carry out guarantee interventions, each member of the Group provides the Parent Company with “readily available funds” in the form of an amount established ex ante and an amount that can be called in by the Parent Company when needed (the Ex Post Quota) following the procedures established in the Cohesion Contract.

In order to reconcile the need for an ample guarantee even in situations of stress with that of preserving the financial strength of each member of the group, while avoiding potential “contagious episodes” of instability, the guarantee obligation assumed by each participating entity is commensurate with their risk-weighted assets and kept within the limits of any capital in excess of their individual requirements, without prejudice to compliance with said requirements.

At least once a year, the Parent Company shall conduct stress tests of the Group aimed at determining the readily available funds and consequently adjusting the shares of the affiliated banks based on the greater or lesser amount already provided to the Parent Company. Therefore, execution of these stress tests is a cornerstone of the entire cross-guarantee framework. The outcome of these stress tests is used to quantify the total amount of readily available funds and, consequently, the guarantee obligations of the affiliated banks and also serves to calibrate the early warning system thresholds.

In order to ensure the ready availability of funds for the Guarantee Scheme, independent of the outcome of stress testing, a minimum level for the Ex Ante Quota has been set at 0.50% of the RWAs of the individual affiliated banks.

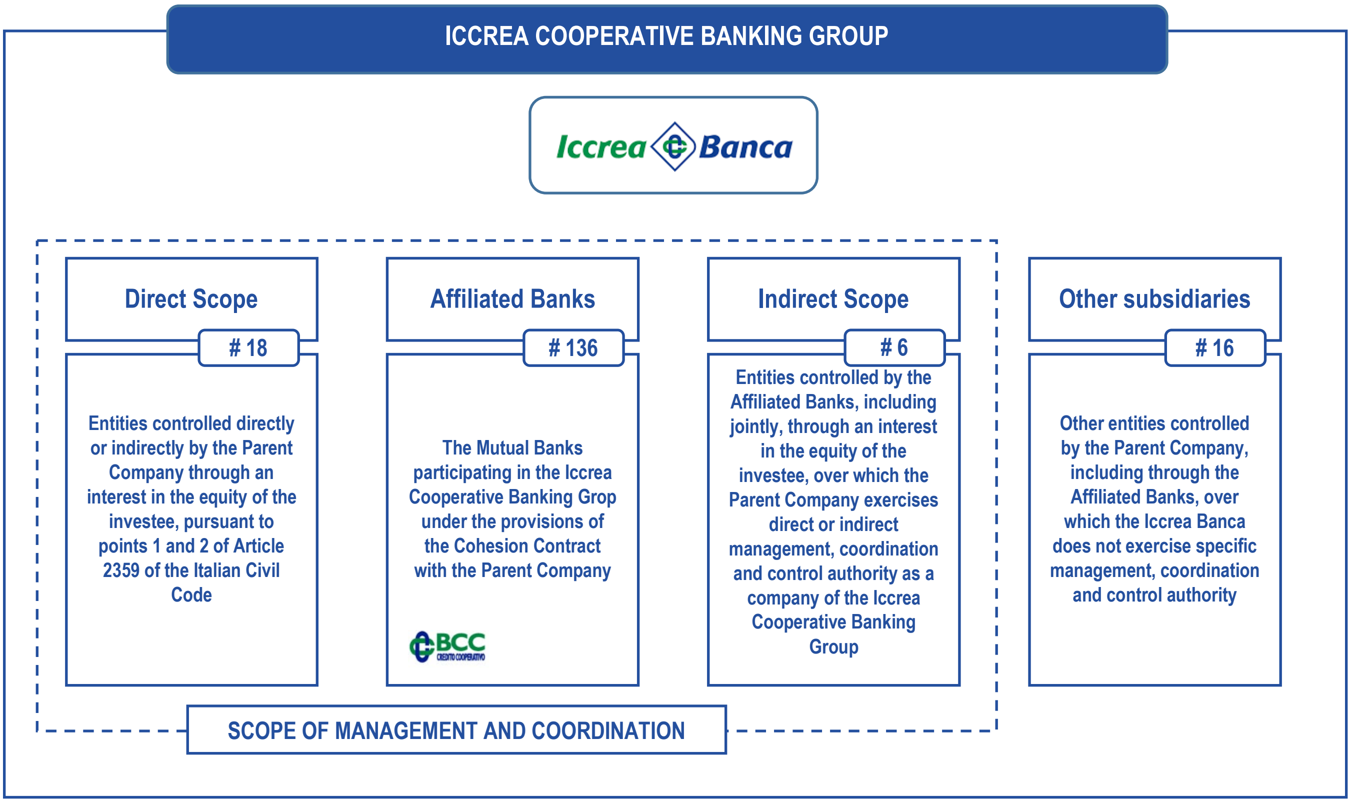
The organizational structure of the Iccrea Cooperative Banking Group

As summarized in the following chart, at June 30, 2020, the ICBG is structured as follows:

- the Parent Company, Iccrea Banca SpA, which is responsible for the strategic and operational oversight of the Group and for interacting with the supervisory authority;
- the companies subject to the management and coordination of the Parent Company, which include:
  - the affiliated banks, participating in the ICBG in virtue of the Cohesion Contract signed with the Parent Company;
  - subsidiaries held, directly or indirectly, by the Parent Company in accordance with points 1 and 2 of Article 2359 of the Italian Civil Code, over which the Parent Company exercises management, coordination and control powers (by convention, these companies are said to fall within the “direct scope” of management and coordination);
  - companies controlled by affiliated banks, separately or jointly, by way of equity investments, over which the Parent Company directly or indirectly exercises management, coordination and control powers in light of their instrumental roles within the ICBG (by convention, these companies are said to fall within the “indirect scope” of management and control);
- other subsidiaries of the Parent Company, held directly or through the affiliated banks, over which Iccrea Banca does not exercise specific management, coordination, or control power.

A list of companies included within scope of consolidation of the Iccrea Cooperative Banking Group is provided in the notes to the financial statements (Part A – Accounting Policies, section 3, sub-section 1). This scope of accounting consolidation essentially coincides with the prudential scope of consolidation.

Organizational structure of the Parent Company



The Parent Company's organization features a hierarchical structure. The first-level units report either to the Board of Directors (in the case of corporate control functions) or to the General Manager and mainly include organizational units that perform complementary/synergistic activities with related functional and operational traits and/or that belong to the same technical or operational area, thereby ensuring performance of the duties necessary in order to carry out the activities of the Parent Company and coordinate the decisions and operations of the units below them.

Starting in June 2019, a revision of the organizational structure of the Parent Company was begun in order to:

- further rationalize the top management structure;
- enhance the effectiveness of the governance of operations and strengthen decision-making lines with top management;
- increase centralized control over cost management.

During the first half of 2020, additional organizational initiatives were undertaken to simplify and enhance the efficiency of Group governance and greater specialization by area of competence, with the following main interventions:

- creation of a single Group ICT center (the "Group ICT Evolution project", on which more below), which mainly involved the integration of the ICT component of Iccrea Banca with BCC Sistemi Informatici;
- centralization of the coordination and supervision of the Bank's back office activities, including the definition of operational models for back office functions and guidance for procurement office and facility management activities;
- enhancement of specific activities implemented with the launch of the ICBG, such as real estate;
- centralization of the analysis, specification and formalization of processes with an "end-to-end" approach for the entire ICBG;
- reduction of organizational levels and generation of savings through the integration of structures with contiguous activities;
- consolidation of the Group cost management and credit management models;
- specification of responsibilities relating to the formalization of the guidelines on insurance coverage for the Parent Company and the companies within the direct scope of consolidation.

The current organizational model of the Parent Company therefore envisages:

- second and third-level corporate control functions, which report directly to the Board of Directors and are organized into the following areas: Chief Audit Executive (CAE); Chief Risk Officer (CRO); Chief Compliance Officer (CCO); and the Chief AML Officer (CAMLO). Each function has its own territorial structure through which control activities on behalf of the affiliated banks are outsourced. Internal Audit is also fully centralized for the direct scope companies. During the first half of the year, organizational initiatives were carried out – with specific authorization from the supervisory authorities – to revise the models of the AML and Compliance functions with a view to centralizing the function at the Parent Company, using specific outsourcing agreements, for the companies within the direct scope as well. The new models, which will become operational in the second half of the year, will strengthen governance while generating synergies and efficiencies. For further details, please see the more complete discussion concerning the Internal Control System.
- areas that report to the General Manager and which are centered around the following main areas of responsibility:
  - the *Chief Financial Officer (CFO) Area*: an area that ensures the proper management of the Group's financial assets, recommending investment strategies and ensuring financial stability, managing liquidity and funding, and managing related risks. The CFO ensures implementation of the strategies and policies concerning management control and planning, while also ensuring the proper, timely execution of separate and consolidated financial reporting and fulfillment of related accounting, tax and regulatory obligations. This area also manages relations with investors and ratings agencies;
  - the *Chief Operating Officer (COO) Area*: an area dedicated to defining strategies and the Group's overall model of operations. This function manages the Procurement Office and organizational issues, while also ensuring the management and development of the real estate portfolios of the Parent Company and of the companies within the direct scope and the tools and approaches for managing these real estate portfolios efficiently and effectively;
  - the *Credit and Subsidiaries Area*: an area responsible for supporting the General Manager in coordinating relations with the companies within the direct scope,[4] supervising the formation of strategic lending guidelines for the Group and institutional/professional insurance coverage for the Group and companies in the direct scope. In addition, working through the *Chief Lending Officer* (CLO) Area, it:
    - ✓ manages all areas of lending – from loan approval to the management of non-performing loans – and oversees and coordinates these activities carried out by the affiliated banks;
    - ✓ manages credit quality, defines lending policies, and ensures their implementation;
    - ✓ defines the guidance for taking on and managing credit risk in line with established strategies and objectives and oversees performance of lending and administrative obligations related to the portfolio of non-performing loans;
  - the Chief Business Officer (CBO) Area: an area responsible for defining and implementing the Group's business strategy with the goal of supporting profitability, ensuring the ongoing development of the approach to the market, developing market positioning, and ensuring the strategic and operational support of the mutual banks. This area also oversees the various divisions of business (i.e. Retail, Corporate, Private Banking & Wealth Management) responsible for defining and implementing ICBG commercial policies and the regional market areas responsible for supporting local operations of the business divisions in line with the general strategies of the area and of the Group. The area includes the functions of marketing and commercial planning, as well as functions dedicated to the ongoing process of innovation and digital transformation;
  - the Chief Information Officer (CIO) Area: an area that coordinates and governs the definition of ICT strategies, policies and guidelines and handling the Group's Information and Communication Technology (ICT) area, consistent with the specified operational continuity requirements. It also provides information services to the Parent Company and other companies of the ICBG based on an outsourcing agreement, exercising oversight and coordination over said companies. The CIO is also responsible for the functional coordination of the information systems of the subsidiaries and of BCC Sistemi Informatici.
  - the Mutual Bank Governance, Institutional Relations and Legal Area: an area that is responsible for contributing to and managing the guidance and coordination efforts called for in the Cohesion Contract and, with regard to capital and financial management policies, manages relations with the affiliated banks for issues related to the EWS (including official publication of the criteria and outcome of classification and of the EWS directives), the Guarantee Scheme and other Group initiatives that call for the involvement of the affiliated banks. The unit also supports the functions of the Parent Company in implementing the initiatives that have an impact on the affiliated banks and handles legal affairs and manages acts and relations with corporate bodies.

Completing the Parent Company's organizational structure and model of operations are the various local offices, which are organized based on the specific operational needs of the affiliated banks in order to maintain close relations in carrying out the Parent Company's duties of management and coordination. More specifically, the Parent Company has established a regional network of 11 local offices in order to maintain close contact with the affiliated banks within its various areas of responsibility (mainly Planning & Management Control, Financial Reporting & Administration, Taxes, General Counsel, and Human Resources & Organization). Management and coordination of the local offices is entrusted to the Local Office Coordination unit.

[4] Without prejudice to existing functional, operational and budget coordination relationships with the competent units of the Parent Company.

The organizational measures implemented during the first half of 2020 include the following:

- in the COO Area:
  - a revision of the Human Resources area within the COO Area, which with a view to enhancing efficiency and increasing specialization involved:
    - ✓ the establishment of the Human Resources and Organization Management and Development Unit, with responsibility for (i) the management, development and training of human resources, (ii) the implementation of change management initiatives and projects, (iii) the management of internal communication, (iv) the management of organizational issues with reference to organizational structures and models and the sizing of staff resources for the various units and (iv) the definition of succession plans;
    - ✓ the establishment of the Industrial Relations, Compensation, Workforce Planning Unit, with responsibility for (i) managing relations with trade unions, (ii) creating/maintaining compensation and benefit systems, (iii) managing people care activities, (iv) planning the workforce and associated costs, (v) managing the selection, appointment and remuneration processes relating to the top management of the Group and other personnel under the responsibility of the Remuneration Committee, as well as relations with the internal board committees on appointments and remuneration;
  - the establishment of the Back Office unit with responsibility for (i) managing back office development projects, (ii) coordinating and supervising the Bank's back office activities,[5] (iii) defining back office operating models and guidance for procurement office activities and (iv) coordinating operational activities relating to facility management and management of workstations for companies within the direct scope;
  - the reallocation of personnel administration activities in the Back Office unit;
  - the establishment of the Real Estate unit with responsibility for handling the process of managing and leveraging the real estate assets of the Parent Company and the companies within the direct scope, identifying, at the Group level, tools and methods to ensure the appropriate development and management of those assets;
  - the organizational revision of the Integrated Security Unit, giving the head of the unit the role of "Head of the Information Security Incident Response Plan - ISRP" of the business continuity system, a role previously performed by the head of the ICT Security unit;
- in the Credit and Subsidiaries Area, the establishment of the Institutional Insurance Management Unit with responsibility for defining the Group guidelines on institutional/professional insurance coverage and, in this context, defining and overseeing the various types of insurance coverage provided within the Parent Company and the companies of the direct scope, in close coordination with the various stakeholders;
- in the CIO Area, as part of the "Group ICT Evolution" project to create a single ICT center bringing together the Group's ICT operations:
  - the transfer of the ICT units of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici (BCC SI) with the consequent outsourcing of IT services to BCC SI;
  - the updating of the organizational structure of the Chief Information Officer Area consistent with the organizational changes being implemented in the Area in order to ensure appropriate governance of the ICT issues entrusted to BCC Sistemi Informatici and to eliminate the dedicated units the previously performed those functions;
- with regard to non-board committees, as part of a broader project to revise the Group's "cost management model", the establishment of the "Costs and Investments Committee", which is responsible for costs and investments for the Group, taking responsibility, above certain thresholds, for authorizing the individual spending proposals (ASA/project initiatives), as well as for validating all extra-budget requests prior to their presentation for approval by the Board of Directors of the Parent Company. In addition, the rules of the Lending Committee were updated, changing the roles and operation of the committee in order to enhance its contribution to the Group lending management model and more consistent with the new organizational structure of the Parent Company.

Finally, note that as September 15, 2020, Mr. Boccuzzi no longer holds the role of Senior Deputy General Manager, having resigned and terminated his relationship with Iccrea Banca.

[5] Collections and payments, securities post-trading, tax requirements connected with the management of financial instruments, personnel administration, pay and contribution services.

Distinctive features of the mutual banks: special legislation, shareholders and customers

In Italian law, mutual credit activities enjoy dual constitutional recognition. As part of the wider cooperative movement, it is protected by Article 45, which recognizes "the social function of cooperation of a mutual and non-speculative nature", while in its function of intermediation of savings and credit, it falls within the particular duty that Article 47 assigns to the Republic to encourage and safeguard savings in all its forms and to regulate, coordinate and control the exercise of credit activities.

In 1993, with the introduction of the Consolidated Banking Act, mutual banks, which have been operating in Italy since the late 1800s, saw the elimination of certain operational restrictions such that they could now provide all the products and services of other banks – with the sole exception of purely speculative investments – and extend the purchase of shares to all those who live or work within the bank's territory, regardless of the particular profession, thereby bringing the service model closer to those of other commercial banks, while maintaining their longstanding ties with the local community.

In addition to a business model based on this relationship, the difference between the mutual banks and their more traditional brethren is explicated in Articles 33 et seq. of the Consolidated Banking Act (with the substantial amendments introduced with Reform Law 49/2016).

More specifically, primary legislation (Articles 33-37 of the Consolidated Banking Act, as amended by the legislation governing mutual banking groups) requires the following of mutual banks: (i) that they be established as limited-liability, joint-stock cooperatives (*società cooperativa per azioni a responsabilità limitata*); (ii) that they have no fewer than 500 shareholders; (iii) that their shareholders be residents of or have operations, on an ongoing basis, in the community in which the bank operates; (iv) that every shareholder have one vote, regardless of the number of shares held; (v) that no shareholder may own shares with a total nominal value of greater than €100,000; and (vii) that at least 70% of annual net profits be allocated to the legal reserve (3% of annual net profits is allocated to mutual funds for the promotion and development of cooperation efforts).

The vocation of service to local communities is also expressed in secondary legislation issued by the Bank of Italy (Bank of Italy Circular no. 285, Part III, Chapter 5), which, in implementation of Article 35(2) of the Consolidated Banking Act,[6] states that no less than 95% of all business shall be conducted within the bank's territory,[7] and at least 50% of this business shall be in favor of shareholders,[8] such that the funding of the bank shall, in essence, go to supporting and financing the economic growth of the traditional area of operations. This legislation ensuring the local and cooperative nature of mutual banks is confirmed in the mutual banking reform, the objective of which, as confirmed by the Bank of Italy, was solely that of overcoming the legislative and operational limitations typical of cooperatives – which could hinder rapid recapitalization when needed, including by accessing the capital markets – and the inefficiencies related to the limited size of such organizations (see Circular no. 285, Part III, Chapter 5, Section 1, sub-section 1).

The mutual banks are therefore subject to special articles of association: an extensive system of rules and controls surrounding banking activity in order to protect savings and ensure financial stability is intertwined with specific rules safeguarding their mutual nature. The reform of mutual banking enabled local communities to remain the owners of their mutual banks and the mutual banks to maintain an adequate level of operational autonomy, correlated with their degree of risk.

In line with their nature as mutual banks, the affiliated banks pursue the objective of maximizing their social utility in the conduct of their business. Their operations are inspired by the fundamental principles of cooperation in the affiliated banks' customer focus and ties to the community, thereby contributing to the social and cultural development of the communities in which they operate by way of active sustainability actions.

As will be described below, the banking services provided are keenly focused on the provision of traditional lending, such as mortgage and business loans, in order to best meet the financing needs of the banks' customers. Direct funding, too, is made up of traditional banking products, such as deposit accounts, repos, current accounts, savings accounts, and bonds. Indirect funding and asset management mainly features the provision of products and services designed to minimize any reputational risk. With regard to investment products, customers are provided the opportunity to invest in mutual funds and SICAVs that offer ethical products and products tied to environmental protection.

The offering is completed with a wide range of payment services, online banking, and insurance products. It also features treasury services for municipal governments, hospitals, and other public bodies and organizations. All of these features of operations make the affiliated banks key actors in supporting economic development in the communities in which they operate, thanks to their specific offering of banking products and services, which has enabled them to maintain stability in savings and investment over the years and to provide contact access to credit for their local communities.

In their pursuit of business objectives centered around social cohesion and the improvement of their local communities, the mutual banks

[6] Which states that articles of association shall contain provisions related to assets, lending, funding, and territory of operations, as well as to the powers granted to the parent company in accordance with Article 37-*bis*, with such provisions being based on the criteria set by the Bank of Italy.

[7] Known as the limit on out-of-area operations. The limit does not include exposures to or secured by:

- central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy;
- the parent company and other companies belonging to a mutual banking group, including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement;
- guarantee systems established between mutual banks.

[8] Known as the prevalent operations rule, for which exposures to or secured by the following entities are treated as comparable to exposures to shareholders:

- central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy;
- the parent company and other companies belonging to a mutual banking group, including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement;
- guarantee systems established between mutual banks.

(and the Group companies that serve them) are constantly engaged in enhancing the offering with banking and lending products tied to initiatives of environmental sustainability and in developing investment products aimed at promoting community-centric and ethical banking practices. Of particular note in this regard are products and initiatives aimed at combating environmental, social and governance (ESG) risks. The affiliated banks have always had a reputation for understanding that promoting social and environmental sustainability ensures economic equilibrium in the community concerned. This can be seen in their sustainability reports and the consolidated non-financial statement of the Iccrea Group, which report on the many products and projects dedicated to their shareholders, to non-profit organizations, to employees, to businesses in the community, to the creation of jobs and the promotion of young entrepreneurs, to environmental protection, and to culture and other initiatives.

As concerns the provision of credit in particular, the affiliated banks are constantly committed to financing lawful, ethical activities, which tends to exclude businesses, individuals, and other financial relationships in areas seen as being controversial, such as: businesses that directly or indirectly hinder individual development or contribute to the violation of other fundamental human rights; activities connected to the promotion of gambling or pornography; activities connected with the promotion of weapons production or of other harmful products; and activities that present an elevated risk of harming the environment.

There is also a significant commitment to providing and placing ethical or environmental investment products. Efforts aimed at the provision of banking and lending products connected with environmental sustainability feature initiatives to promote a culture of energy savings and the responsible use of resources, including actions that involve the mutual banks directly, and their customers indirectly, through products of low environmental impact, financing to help businesses and households install systems for the generation of renewable energy (i.e. solar, wind, or thermal), projects to improve the energy efficiency of buildings, and financing for the purchase of environmentally sustainable vehicles.

Socially responsible mutual funds are also offered as ethical forms of investment that give investors the option of donating a portion of their investment to projects of social good. In the same way, there are specific lines of personalized, diversified asset management accounts that invest solely in ethical financial instruments.

Business microcredit, governed by Article 111 et seq. of the Consolidated Banking Act and promoted as a tool of social development and financial inclusion, also plays an important role. Microcredit provides access to credit for young entrepreneurs with great ideas and initiative but little or no collateral. For these young entrepreneurs, the lack of a credit history, collateral, or personal guarantees makes it difficult, if not impossible, to access credit despite having a good idea for a new business. The signing of a specific memorandum of understanding between Iccrea and the National Microcredit Agency is intended to increase the number of mutual banks operating in the particular segment and to increase the already notable volume of business in this area. In 2019, one microcredit transaction in four in Italy (guaranteed by a specific section of the Guarantee Fund for SMEs) was carried out by the mutual banks belonging to the Iccrea Cooperative Banking Group.

Similar initiatives are under way to promote social microcredit. A second memorandum signed with the National Microcredit Agency regards the promotion of social microcredit among the mutual banks participating in the Iccrea Cooperative Banking Group and the formation of a joint working group to conduct a feasibility study for the establishment of a guarantee fund to facilitate the access of individuals and households in difficulty to credit.

The concepts of mutualism and localism that characterize the model of the Iccrea Cooperative Banking Group go well with that of sustainable development, an objective explicitly expressed in Article 2 of the articles of association of the mutual banks, which integrate the bank’s mission with the promotion of responsible and sustainable growth of the local community. The creation of economic and financial value in the operations of the Group’s mutual banks is closely associated with the creation of the environmental, social and cultural value of local communities.

The Iccrea Cooperative Banking Group pursues a strategy aimed at ensuring the stability and development of mutual banks while respecting their territorial, historical, cultural, social and economic identity as enshrined in the “Code of Ethics and Conduct”, inspired by the historical principles and ethical values of cooperation in credit activities. The Group is strongly oriented in its choices and conduct towards the mutualistic and ethical principles and the values of the mutual banks as expressed within their articles of association and in the Charter of Mutual Banking Values, which represents the “constitution” guiding the action of the mutual banks.

With an approach based on partnership and support between the Parent Company and affiliated banks, the Group promotes the development of competitive capacities and the improvement of mutual bank positioning on the market by leveraging the dominant principle of mutuality as set out in the provisions of the Italian Civil Code from Title VI - “Cooperative societies and mutual insurance undertakings”, Chapter I -”Cooperative companies” to Article 2511 et seq., which still distinguishes mutual banks from the traditional banking system.

In order to ensures that this natural role of banks in sustainable development is visible at the national level and to respond to an often improper use of the term “sustainable”, the Group considers it appropriate and strategic to enhance the “sustainability” of the banking model of the mutual banks and the Group.

The mutual banks make a significant contribution to local communities through their charitable activities, which are primarily targeted at:

- projects and other activities aimed at assisting children and the elderly in need, as well as assisting those who are experiencing social hardship or exclusion, the sick and disabled, and other vulnerable segments of the population; the promotion of sports; civil protection; and the development of local communities and local resources;

- education, research and culture, particularly for young people and the elderly and with an emphasis on cooperation and on economic and social inclusion (supporting schools and other training and research institutions in their research projects and other specific events; scholarships and research grants for graduate and post-graduate programs; education initiatives to promote the responsible use of money; initiatives to promote employment among young people; and the promotion of start-ups and innovation);
- health care research and assistance through the projects of prestigious health care organizations, including in collaboration with universities and other local and national research institutes and by funding scholarships;
- the promotion of culture, financing historical and literary studies and initiatives, with a particular emphasis on the traditions and customs of the local communities; exhibits and other events tied to local culture; restoration and development of local cultural landmarks.

The mission of supporting local communities is further underscored by the level of participation in the credit and philanthropic support measures taken in response to the COVID emergency.

At the end of the first half of the year, the total number of moratorium applications relating to the various types of intervention (legislative, ABI, bank initiatives, etc.) granted by the Group numbered about 205 thousand (compared with some 219 thousand applications received), with a total gross exposure of approximately €21.9 billion (equal to about 26% of the Group's overall ordinary customer loan portfolio). In terms of volumes, about 66% of these applications regarded the moratorium in support of micro-enterprises and SMEs, with the remainder involving retail customers.

With regard to the additional credit measures adopted at the national level (Decree Law 23 of April 8, 2020, the so-called "Liquidity Decree"), at the end of the period, the Group had received amount 95 thousand applications for a total of about €3.2 billion, while the value of loans granted in response to the applications amount to around €1.8 billion. The preponderant share of these transactions (about 78% in terms of volumes disbursed) involved new loans with a maximum value of €25,000 guaranteed by the Central Guarantee Fund (Article 13, paragraph 1, letter m, of Decree Law 23 of April 8, 2020).

The overall value of the philanthropic initiatives undertaken by Group banks in March-June 2020 to support the fight against the COVID-19 pandemic (including those originating from the clubs of young members, members, foundations and employee associations) exceeded €8 million, in addition to the initiative of the Federazione delle BCC Marchigiane and the mutual banking system fundraising promoted by Federcasse, in which the Group also participated with a contribution of €500 thousand.

The mutual bank mission – Sustainability and environmental protection

The concept of sustainability is a natural evolution in the community-centric genetic makeup of the mutual banking system. Over the years, the cooperative, mutualistic roots of the mutual banks have led affiliated banks to pursue, within their own communities, the sustainable development goals (SDGs) defined in the UN's 2030 Agenda.

At the Iccrea Cooperative Banking Group, we believe that sustainability is an opportunity to reassert the principles and values of cooperation in banking while emphasizing the attention that mutual banks pay to their communities and local economies in respect of the environment and in pursuit of the goals of Article 2 of the articles of association. To this end, the Group has always invested in creating a system of sustainability governance that integrates the environmental, social and governance (ESG) factors in both strategy and operations, supported by a model of operations based on specific centers of responsibility.

In May 2019, we appointed an Executive Director of Sustainability and Consolidated Non-Financial Reporting for the Group, who is responsible for developing the sustainability plan and preparing and approving the consolidated non-financial statement.

This executive director is assisted by the Chiefs Committee for Sustainability, which is responsible for supporting the Public Affairs & Sustainability unit in setting sustainability goals and in subsequent implementation of the actions needed to achieve those goals, and by the Sustainability Science Committee, comprising ten members representing the primary stakeholders of the Group, which is tasked with providing the executive director with an external and strategic point of view on the sustainability goals and to the related plan and non-financial statement.

At the operational level, the Public Affairs & Sustainability unit has been created as a vehicle of dialogue between the mutual banks and the Parent Company. This unit is dedicated to sustainability management, both in terms of non-financial reporting and for the development plan and integration of ESG concerns. The Public Affairs & Sustainability unit interacts with the mutual banks, engaging in collaborative activities and other support efforts for mutual banks to promote innovation and community development. With a view to leveraging the role of the mutual banks as local banks, the Public Affairs & Sustainability unit has also forged close institutional relationships at the national (e.g. CDP) and supranational (e.g. EIB and EIF) levels but also at the local level, through representation with regional bodies (and related managing authorities) and regional financial institutions, where present. Agreements have been entered into with a number of these financial institutions with the aim of coordinating and strengthening the operational relationship between the mutual banks and these entities, in the interest of local businesses, especially micro-enterprises.

The Parent Company has also established policies concerning the consolidated non-financial statement in order to govern the roles, responsibilities, stages and timing of the various areas of Iccrea Banca, of the companies within the direct and indirect scopes, and of the affiliated banks involved in the consolidation of non-financial reporting. Completing these top-level regulations, the process rules for preparation of the non-financial statement, aimed particularly at the affiliated banks, have also been established. These rules detail the phases and various activities involved in gathering the data and other information to be reported. They also describe the certification and tracking of qualitative and quantitative information in accordance with Legislative Decree 254/2016. All of this is in strict correlation with the identification and prioritization of material issues and of the indicators of the chart of accounts.

During the first half of 2020, sustainability initiatives begun in 2019 were completed. In particular, in March 2020, the Group's Charters of Commitments on the Environment and Combating Climate Change and on Human Rights were approved by the Board of Directors of Iccrea Banca. These Charters set out the commitments and guidelines for all the companies and affiliated banks of the Iccrea Group in two of the most important sustainability issues. The first Charter represents the principles which the Group has adopted in the prevention, management and, where possible, reduction of the direct and indirect environmental impacts of the operations of the Iccrea Cooperative Banking Group. The second promotes and guarantees the protection of human rights in respect of employees, shareholders, customers, suppliers and communities in compliance with national and international law and contributing to the achievement of the objectives of the 2030 Agenda for Sustainable Development of the United Nations.

Together with the Charters of Commitments, on March 30, 2020, the Board of Directors also approved the Group’s 2020-2023 Sustainability Plan, work on which had begun in 2019. The Sustainability Plan is a chapter of the Business Plan and represents the Group's strategy in promoting the sustainable development of territorial systems. The Plan is made up of 16 macro objectives and 30 specific objectives with a deadline of 2023. They are developed into three strategic areas: Territory, the Environment and Combating Climate Change, and People and Communities. The three strategic areas draw their strength from the merging of the values that distinguish the mutual banks, their mission as expressed in Article 2 of the Articles of Association and the need to integrate environmental and social factors into the responsibilities of economic actors. Through the Sustainability Plan, the Iccrea Group accepts the principle of integral ecology expressed in the Encyclical Laudato Si', contributes to a large part of the Sustainable Development Goals of the UN 2030 Agenda and strengthens the role of the Group’s mutual banks as banks supporting the sustainability of local communities.

The objectives of the Plan have been defined at Group level and will be pursued, within their respective spheres of competence and the scope of the objectives, by the Parent Company, the subsidiaries and the affiliated mutual banks. The implementation of the Sustainability Plan must be accompanied by the progressive alignment of internal procedures and regulations with the European regulatory framework on Sustainable Finance. The package of guidelines and regulatory measures included in the European Action Plan on Sustainable Finance envisages the integration of sustainability risks (environmental, social and governance), with particular regard to those relating to climate change, within the system for managing banking risks, the loan origination and monitoring process and the decision-making processes associated with financial investments. The various actions also include the adoption of a common European classification of sustainable economic activities with direct impacts on the issue of green bonds as well as on the promotion of “sustainable” financial products.

More detailed qualitative and quantitative information on non-financial activities is reported annually in the consolidated non-financial statement, which is audited for compliance, in accordance with Article 3, paragraph 10, of Legislative Decree 254/2016, by EY SpA.

THE GROUP'S ORGANIZATION AND BRANCH NETWORK

The network of the 136 mutual banks of the Group and of Banca Sviluppo is fairly uniform throughout the country (35% in southern Italy, 35% in central Italy, and 30% in the north) as a result of our mission to support local communities. The only regions in which the Group has no banking presence are Valle d'Aosta, Liguria and Trentino–Alto Adige (although the Group does have branches in the latter two regions).

In the first half of 2020, the number of affiliated banks declined from 140 to 136 as a result of four mergers involving eight affiliated banks:

- the merger of Banca di Monastier e del Sile into BCC Pordenonese (which resulted in the creation of BCC Pordenonese e Monsile);
- the merger of Banca Cras and BCC Umbria (which resulted in the creation of BCC Banca Centro – Credito Cooperativo Toscana - Umbria).
- the merger of BCC di Valledolmo into BCC San Giuseppe Petralia Sottana (which resulted in the creation of BCC San Giuseppe delle Madonie – Società Cooperativa);
- the merger of BCC di Formello e Trevignano Romano and BCC di Riano (which resulted in the creation of BCC della Provincia Romana).

Structure of the Group's network of bank branches

The ICBG is Italy's third-largest banking group in terms of number of branches, with 2,552 branches operated by 136 mutual banks and by Banca Sviluppo, 57% of which are located in the regions of Lombardy, Veneto, Tuscany and Emilia-Romagna. The branch network has a market share within Italy of 10.5%, with peak shares in the regions of Marche (20%), Basilicata (18%), Calabria (17%) and Veneto (17%).

The first half of 2020 also saw the closure of a number of branches, partly offset by the opening of new branches in under-served locations. The balance of these changes was a net reduction in branch offices (-22 compared with December 2019). The rationalization of the network, while manifesting itself to a lesser extent than for Italy's broader banking industry, must be viewed within the context of the close physical presence of the affiliated banks in their communities, which plays a key role in their relationships with customers and the communities. In order to ensure a proper balance between physical presence and economic sustainability, following the creation of the Group, an initial territorial development plan was defined, the main goals of which include increasing the market share and gross bank funding and lending by repositioning branches in more attractive markets and reducing costs at a number of under-performing strategic branches.

The ICBG has at least one branch in 1,808 of the 5,221 Italian municipalities served by banks (34.6% of the total). In 282 of these municipalities (15.6% of the total) the Group's branches are the only banking presence, consistent with the organization's community-centric mission.

Lombardy is the Italian region in which the ICBG serves the greatest number of municipalities (421), whereas Tuscany is number one in terms of penetration in municipalities served by at least one bank (62.7%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only presence	(%)
Lombardy	1,081	421	38.9%	80	19.0%
Veneto	487	278	57.1%	26	9.4%
Tuscany	263	165	62.7%	4	2.4%
Emilia Romagna	318	120	37.7%	4	3.3%
Sicily	277	111	40.1%	25	22.5%
Lazio	225	104	46.2%	17	16.3%
Marche	187	112	59.9%	9	8.0%
Campania	289	88	30.4%	31	35.2%
Calabria	141	61	43.3%	27	44.3%
Piedmont	540	72	13.3%	14	19.4%
Friuli Venezia Giulia	162	63	38.9%	11	17.5%
Puglia	210	60	28.6%	0	0.0%
Abruzzo	154	63	40.9%	12	19.0%
Basilicata	85	36	42.4%	12	33.3%
Umbria	75	21	28.0%	1	4.8%
Molise	35	13	37.1%	8	61.5%
Liguria	120	10	8.3%	1	10.0%
Sardinia	284	8	2.8%	0	0.0%
Trentino-Alto Adige	261	2	0.8%	0	0.0%
Valle d'Aosta	27	0	0.0%	0	n.a.
Total	**5,221**	**1,808**	**34.6%**	**282**	**15.6%**

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. municipalities	282	215	210	155	946	**1,808**
% of the total	15.6%	11.9%	11.6%	8.6%	52.3%	**100.0%**

Strategic positioning of the Group's banks

The member banks of the Iccrea Cooperative Banking Group, including Banca Sviluppo, account for approximately 5.2% of the Italian market for (performing) loans to resident customers, net of repurchase transactions and Monetary Financial Institutions), equal to nearly €73 billion. Their market share of deposits by resident customers equals 6.1%, for a total of almost €95 billion.

At the regional level, the largest share of loans to customers – equal to nearly 15% - was registered by Marche, followed by shares of more than 10% in Friuli Venezia Giulia and Tuscany.

Region	Market share – loans to customers	Market share – consumer households	Market share – enterprise
Marche	14.7%	14.5%	16.6%
Friuli Venezia Giulia	11.1%	11.3%	12.9%
Tuscany	11.2%	9.0%	12.1%
Abruzzo	9.6%	9.4%	10.9%
Basilicata	9.2%	6.7%	14.3%
Veneto	9.6%	10.4%	11.4%
Emilia Romagna	6.6%	7.2%	7.1%
Calabria	5.7%	5.5%	9.6%
Lazio	3.0%	6.6%	6.0%
Lombardy	4.7%	5.3%	6.3%
Umbria	5.4%	4.3%	6.7%
Molise	4.5%	3.1%	7.3%
Piedmont	4.7%	4.1%	6.5%
Puglia	4.1%	2.9%	6.6%
Sicily	3.4%	2.7%	5.5%
Campania	3.2%	2.2%	5.3%
Sardinia	1.8%	0.8%	4.1%
Liguria	0.8%	0.5%	1.0%
Valle d'Aosta	1.6%	0.3%	2.8%
Trentino-Alto Adige	0.8%	0.2%	1.0%
Total Italy	**5.2%**	**5.8%**	**7.4%**

Source: Based on supervisory and Bank of Italy data as at June 30, 2020. Loans to customers have been allocated based on counterparty residence..

For customer deposits, on the other hand, Marche is the region in which the Group has achieved the greatest market share (14.8%), followed by Tuscany and Friuli–Venezia Giulia.

Region	Market share – customer deposits
Marche	14.8%
Tuscany	10.7%
Veneto	9.2%
Friuli Venezia Giulia	9.3%
Abruzzo	9.2%
Basilicata	7.0%
Emilia Romagna	6.2%
Lombardy	5.2%
Umbria	5.7%
Calabria	5.6%
Lazio	8.3%
Sicily	4.7%
Piedmont	1.2%
Puglia	4.0%
Campania	2.9%
Molise	2.7%
Sardinia	1.9%
Liguria	0.5%
Trentino-Alto Adige	0.2%
Valle d'Aosta	0.4%
Total Italy	**6.1%**

Source: Based on supervisory and Bank of Italy data as at June 30, 2020. Loans to customers have been allocated based on counterparty residence..

Distribution of commercial workforce

In line with the regional distribution of branches, the branch network by number of employees shows peak numbers in the regions of Lombardy, Veneto, Tuscany, Emilia–Romagna and Marche. The national average number of employees per branch is 5.1. By region, Lombardy has the highest average number (7.5), followed by Piedmont (5.8) and Lazio (5.6). The average distribution of branch employees is the result of a process initiated by the mutual banks some time ago aimed at increasing the efficiency of territorial coverage in which the mutual banks provide a social service, while also, where appropriate, reducing the hours and days open to the public and balancing the needs of serving the community with those of economic sustainability.

Region	No. Branch Employees	No. Group Branches	Employees/Branch
Lombardy	4,065	542	7.5
Veneto	1,785	405	4.4
Tuscany	1,420	293	4.8
Emilia-Romagna	1,147	244	4.7
Lazio	1,118	198	5.6
Marche	734	166	4.4
Piedmont	527	91	5.8
Campania	413	103	4
Sicily	411	132	3.1
Friuli-Venezia Giulia	363	92	3.9
Puglia	318	74	4.3
Calabria	278	70	4
Abruzzo	265	76	3.5
Umbria	134	37	3.6
Basilicata	93	37	2.5
Liguria	50	11	4.5
Sardinia	45	9	5
Molise	11	11	0.9
Trentino-Alto Adige/Südtirol	2	1	2
Total Italy	**13,178**	**2,592**	**5.1**

As at June 2020, the number of customers of the Iccrea Cooperative Banking Group with at least one active financing agreement totaled about 1.23 million. Retail customers accounted for about 88% of the total, while the corporate segment came to about 12%. In terms of deposits, the number of customers with at least one active account with the ICBG totaled approximately 3.12 million,

Number of customers – Loans to customers

Ordinary customers	No. of Customers (thousands)	Percent of total
Consumer households	784,229	63.7%
Small and medium-sized businesses	295,682	24.0%
Corporate	144,727	11.8%
Central banks, lenders and other financial companies	2,446	0.2%
Government entities	1,468	0.1%
International	2,296	0.2%
Total	**1,230,848**	**100%**

Number of customers – Customer deposits

Ordinary customers	No. of Customers (thousands)	Percent of total
Consumer households	2,542,900	81.4%
Small and medium-sized businesses	414,656	13.3%
Corporate	147,798	4.7%
Central banks, lenders and other financial companies	4,490	0.1%
Government entities	1,109	0.0%
International	12,198	0.4%
Total	**3,123,151**	**100%**

In terms of ownership structure, shareholders at June 2020 numbered more than 814,000, increasing by over 3,700 compared with December 31, 2019 (+0.46%). Of the total, about 44% were concentrated in northern Italy, with another 44% in central Italy.

Geographical area	No. Shareholders June 20	(%)	No. Shareholders Dec 19	(%)	Delta Giu 20- Dic 19	Chg June 20 - Dec 19
Northwest	238,975	29.36%	239,456	29.55%	-481	-0.20%
Northeast	117,234	14.40%	116,180	14.34%	1,054	0.91%
West-Central	197,708	24.29%	194,827	24.04%	2,881	1.48%
East-Central	162,140	19.92%	162,212	20.02%	-72	-0.04%
Southwest	72,170	8.87%	71,888	8.87%	282	0.39%
Southeast	25,856	3.18%	25,754	3.18%	102	0.40%
Total	**814,083**	**100.00%**	**810,317**	**100.00%**	**3,766**	**0.46%**

4. DEVELOPMENTS IN GROUP OPERATIONS

The following provides an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at June 30, 2020. To enable a more immediate understanding of the Group's balance sheet and income statement, the following tables contain more condensed schedules than those provided for in Circular no. 262/05 of the Bank of Italy.

FINANCIAL POSITION

Consolidated assets

€/thousands	30/6/2020	31/12/2019
Cash and cash equivalents	709,125	956,482
Financial assets measured at fair value through profit or loss	2,058,398	1,940,080
Financial assets measured at fair value through other comprehensive income	9,352,081	9,109,726
Financial assets measured at amortized cost	148,767,792	135,869,471
a) due from banks	8,093,221	7,384,246
b) loans to customers	85,766,612	85,240,858
c) securities	54,907,959	43,244,367
Hedging derivatives and value adjustments of macro-hedged financial assets	244,120	157,761
Equity investments	107,492	88,893
Property, plant and equipment	2,798,679	2,842,541
Intangible assets	150,459	146,462
Tax assets	2,099,718	2,135,149
Non-current assets and disposal groups held for sale	28,175	33,856
Other assets	2,146,687	2,250,045
Total assets	**168,462,726**	**155,530,466**

The consolidated assets of the Iccrea Cooperative Banking Group at June 30, 2020 totaled €168.5 billion, up €12.9 billion (+8.3%) on December 31, 2019. The increase is mainly attributable to the increase in the exposure to government securities classified in the HTC portfolio (+€11.8 billion), in line with the new Group financial strategy approved in March 2020 in response to the more expansionary monetary policy stance of the ECB (in particular the expansion of access to TLTRO-III operations) to counter the negative effects on the economy of the COVID-19 health emergency.

Financial assets measured at fair value through profit or loss, in the amount of €2 billion, include financial assets held for trading in the amount of €0.3 billion (mainly in government securities held for trading), financial assets designated as at fair value in the amount of €0.4 billion (in instruments in which liquidity from the Guarantee Scheme is invested, mainly in European government securities), and other financial assets mandatorily measured at fair value in the amount of €1.3 billion.

The table below shows these three portfolios and their related fair values based on tier system that reflects the significance of the inputs used to measure them. More specifically: (i) security prices on an active market (level 1); (ii) inputs other than security prices and which are observable directly (prices) or indirectly (derived from prices) on the market (level 2); (iii) inputs not based on observable market data (level 3).

€/thousands	L1	L2	L3	Total 30/6/2020	Total 31/12/2019
Financial assets held for trading	49,132	294,893	1,838	345,863	205,225
Debt securities	*32,677*	*2,500*	*59*	*35,236*	*36,035*
Equity securities	*2,485*	*124*	*120*	*2,729*	*6,485*
Units in collective investment undertakings	*13,794*	*1,875*	*-*	*15,669*	*12,641*
Financial derivatives	*176*	*290,394*	*1,659*	*292,229*	*150,065*
Financial assets designated as at fair value	358,503	*24,919*	4,603	388,025	367,477
Debt securities	*358,503*	*24,919*	*-*	*383,422*	*362,091*
Loans	*-*	*-*	*4,603*	*4,603*	*5,385*
Financial assets mandatorily measured at fair value	270,662	762,795	291,053	1,324,510	1,367,379
Debt securities	*16,254*	*58,745*	*2,541*	*77,540*	*95,516*
Equity securities	*9,115*	*8,533*	*19,196*	*36,844*	*30,058*
Units in collective investment undertakings	*245,294*	*177,708*	*39,877*	*462,879*	*488,496*
Loans	*-*	*517,809*	*229,438*	*747,247*	*753,309*
Financial assets measured at fair value through profit or loss	**678,296**	**1,082,608**	**297,494**	**2,058,398**	**1,940,080**

The portfolio of financial assets measured at fair value through other comprehensive income in the amount of €9.4 billion, an increase of €0.2 billion on December 31, 2019, is mainly represented by government securities held in accordance with the HTCS business model. The aggregate also includes, but to a lesser extent, minority interests in the amount of €138 million, which are measured at fair value through other comprehensive income without recycling.

€/thousands	L1	L2	L3	Total 30/6/2020	Total 31/12/2019
Debt securities	9,035,081	73,245	105,556	9,213,882	8,978,573
Equity securities	5,225	65,721	67,253	138,199	131,153
Financial assets measured at fair value through other comprehensive income	**9,040,306**	**138,966**	**172,809**	**9,352,081**	**9,109,726**

With regard to financial assets measured at amortized cost, amounts due from banks (net of debt securities) amounted to approximately €8 billion and include, in addition to exposures related to ordinary liquidity management, the reserve requirement with central banks in the amount of €5.5 billion. In the table below, these exposures to banks are classified according to the stages of risk defined by IFRS 9 for performing positions (stages 1 and 2) and credit-impaired positions (stage 3).

€/thousands	Stages 1 and 2	Stage 3	Total 30/6/2020	Percentage share	Total 31/12/2019	Percentage share
Due from central banks	5,532,768	-	5,532,768	68.4%	4,211,582	57.0%
Loans to banks	2,559,885	568	2,560,453	31.6%	3,172,664	43.0%
Current accounts and demand deposits	568,973	-	568,973	7.0%	592,548	8.0%
Time deposits	67,289	-	67,289	0.8%	79,619	1.1%
Other	1,923,623	568	1,924,191	23.8%	2,500,497	33.9%
Financial assets measured at amortized cost – Due from banks	**8,092,653**	**568**	**8,093,221**	**100.0%**	**7,384,246**	**100.0%**

Loans to customers show a balance of €85.8 billion net of debt securities, €80.7 billion of which performing and about €5 billion related to impaired positions. Among performing loans, the medium to long-term component amounts to approximately €57.1 billion, while lease financing totals €4.2 billion.

€/thousands	Stages 1 and 2	Stage 3	Total 30/6/2020	Percentage share	Total 31/12/2019	Percentage share
Current accounts	6,979,831	954,750	7,934,581	9.3%	9,241,053	10.8%
Repurchase agreements	3,290,874	-	3,290,874	3.8%	2,935,176	3.4%
Medium/long-term loans	57,136,844	3,500,693	60,637,537	70.7%	58,144,238	68.2%
Credit cards, personal loans and salary-backed loans	2,039,341	40,998	2,080,339	2.4%	2,186,330	2.6%
Lease financing	4,171,729	380,352	4,552,081	5.3%	4,704,582	5.5%
Factoring	268,441	8,223	276,664	0.3%	504,704	0.6%
Other lending	6,861,630	132,906	6,994,536	8.2%	7,524,774	8.8%
Financial assets measured at amortized cost – Loans to customers	**80,748,690**	**5,017,922**	**85,766,612**	**100.0%**	**85,240,858**	**100.0%**

The following table summarizes the set of financial assets measured at amortized cost classified by stage of risk. Performing loans to customers, before writedowns, account for 88.5% of the total.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Loans	89,632,586	10,611,417	(791,243)	(5,592,927)
Loans to banks	8,101,508	1,088	(8,855)	(519)
Loans to customers	81,531,078	10,610,329	(782,388)	(5,592,408)
Debt securities	55,014,993	2,954	(108,922)	(1,066)
Total financial assets measured at amortized cost	**144,647,579**	**10,614,371**	**(900,165)**	**(5,593,993)**

Debt securities measured at amortized cost (HTC business model) amounted to €54.9 billion (+€11.8 billion on December 31, 2019), in large part represented by Italian government securities.

Gross non-performing loans – which have steadily been declining in the last two years thanks to the robust de-risking implemented - amounted to about €10.6 billion, for a ratio to total gross loans of 11.3% (11.5% if only loans to ordinary customers are considered). Net impaired loans amounted to €5 billion, for a ratio to total net loans of 5.3% (5.9% when considering only ordinary customers). The ratios of net bad loans and unlikely-to-pay positions to net lending are equal to 2% (2.1% for ordinary customers) and 2.9% (3.3% for ordinary customers), respectively.

The coverage ratio for impaired loans to customers was 52.7%, an increase on December 31, 2019 (50.9%). The rise partly reflects the more prudent policies adopted by the Group in response to the crisis triggered by the spread of the pandemic. In particular, the coverage ratio was 66.6% for bad loans (65.2% at December 31, 2019) and 39.6% for unlikely-to-pay positions (38.1% at December 31, 2019).

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage 30/6/2020	Coverage 31/12/2019
Bad loans	5,490,171	(3,654,021)	1,836,150	66.6%	65.2%
Unlikely-to-pay positions	4,578,839	(1,811,241)	2,767,598	39.6%	38.1%
Impaired past-due positions	541,320	(127,146)	414,174	23.5%	15.7%
Impaired exposures to customers	**10,610,330**	**(5,592,408)**	**5,017,922**	**52.7%**	**50.9%**

The particular business model of the affiliated banks, which account for the largest component of assets and of total loans to customers, is reflected, above all, in the type of counterparty. Total loans disbursed, in the amount of €92.1 billion at June 30, 2020, have mainly gone to households and small to medium-sized enterprises (SMEs), which accounted for 34.5% and 45.4% of total lending, respectively. As shown in the table below, these segments show a lower NPL ratio than that of the corporate segment.

Type of counterparty	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Ordinary customers	**91,331,730**	**99.1%**	**88.4%**	**99.0%**	**11.6%**	**100.0%**
Consumer households	31,827,400	34.5%	93.8%	36.6%	6.2%	18.8%
Small and medium-sized businesses	41,803,931	45.4%	88.7%	45.5%	11.3%	44.6%
Producer households	8,609,244	9.3%	87.3%	9.2%	12.7%	10.3%
Micro-enterprises, institutions and associations	8,594,537	9.3%	84.6%	8.9%	15.4%	12.5%
Other SMEs	24,600,151	26.7%	90.7%	27.3%	9.3%	21.7%
Other non-financial companies	11,983,115	13.0%	68.1%	10.0%	31.9%	36.1%
Other financial companies	5,717,284	6.2%	99.0%	6.9%	1.0%	0.5%
Government entities	**809,577**	**0.9%**	**99.6%**	**1.0%**	**0.4%**	**0.0%**
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**100.0%**

The Group's lending is mainly concentrated in northern (55.2%) Italy, which has a lower level of credit risk, and central Italy (33.4%).

Geographical area	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
North-east	25,818,045	28.0%	89.7%	28.4%	10.3%	25.0%
North-west	25,057,607	27.2%	88.6%	27.2%	11.4%	26.9%
Center	30,794,358	33.4%	87.8%	33.2%	12.2%	35.3%
South and islands	10,471,296	11.4%	87.0%	11.2%	13.0%	12.9%
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**100.0%**

In terms of the industry segment of counterparties, in addition to consumer households, the segments that saw the greatest lending were real estate and construction, manufacturing, commerce, and services.

Economic segment of counterparty	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Consumer households	31,827,400	34.5%	93.8%	36.6%	6.2%	18.8%
Primary sector	5,100,014	5.5%	90.0%	5.6%	10.0%	4.8%
Manufacturing	12,250,392	13.3%	88.9%	13.4%	11.1%	12.8%
Commerce	9,492,232	10.3%	87.6%	10.2%	12.4%	11.1%
Real estate and construction	14,383,040	15.6%	71.3%	12.6%	28.7%	39.0%
Services and other	12,561,368	13.6%	89.2%	13.7%	10.8%	12.8%
Government entities	809,577	0.9%	99.6%	1.0%	0.4%	0.0%
Financial companies	5,717,284	6.2%	99.0%	6.9%	1.0%	0.5%
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**100.0%**

The primary sector saw a higher percentage of lending than the national average, given the nature of the affiliated banks as local banks, whereas the real estate and construction segment, as in the rest of Italy, has suffered most from the effects of the prolonged economic crisis, posting a higher NPL ratio than the Group average. The particular business model, featuring a prevalence of medium and long-term lending to households and small and medium-sized businesses, is responsible for the high rate of collateral-backed lending. Specifically, 70.3% of impaired positions are backed by collateral, a figure that should be read together with the high level of NPL coverage.

Type of guarantee	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Collateral	58,048,169	63.0%	87.2%	62.0%	12.8%	70.3%
Personal guarantees	15,508,240	16.8%	91.6%	17.4%	8.4%	12.3%
Unsecured	18,584,898	20.2%	90.1%	20.5%	9.9%	17.4%
Total loans to customers	**92,141,307**	**100.0%**	**88.5%**	**100.0%**	**11.5%**	**100.0%**

With regard to other assets, equity investments, totaling €107.5 million, mainly represent interests in associates, the most significant of which are the investments in BCC Vita (30%), Satispay (16%), and BCC Assicurazioni (30%).

Property, plant and equipment, totaling €2.8 billion, mainly includes property used in operations (€2.1 billion) as well as properties contributed to consolidated real estate investment funds in the amount of €0.7 billion.

Intangible assets include goodwill (€26 million) relating to the acquisition of bank assets and liabilities by affiliated banks prior to the establishment of the Group as well as to consolidation differences originated by two investees. Other intangible assets (€125 million) refer mainly to user licenses and software.

Tax assets total €2.1 billion and include current taxes of €0.4 billion and deferred tax assets of €1.7 billion, the latter of which includes €1.2 billion under Law 214/2011.

Consolidated liabilities and equity

€/thousands	30/6/2020	31/12/2019
Financial liabilities measured at amortized cost	152,889,943	140,832,998
a) due to banks	29,832,621	18,873,746
b) due to customers	108,461,986	105,581,113
c) securities issued	14,595,336	16,378,138
Financial liabilities held for trading	305,106	163,728
Financial liabilities designated as at fair value	7,393	11,461
Hedging derivatives and value adjustments of macro-hedged financial liabilities	445,391	320,606
Tax liabilities	103,975	105,945
Other liabilities	3,620,672	3,111,184
Post-employment benefits	299,320	306,254
Provisions for risks and charges	500,957	445,700
Shareholders' equity	10,167,847	9,994,113
Net profit/(loss) for the period (+/-)	122,123	238,478
Total liabilities and equity	**168,462,726**	**155,530,466**

Total consolidated liabilities and equity at June 30, 2020 amounted to €168.5 billion, up €12.9 billion (+8.3%) on December 31, 2019. The increase is mainly attributable to liabilities measured at amortized cost (+€12.1 billion).

More specifically, financial liabilities measured at amortized cost include direct deposits from ordinary customers totaling €106.4 billion (+€1 billion on the end of 2019). The increase in amounts due to customers (+€2.8 billion) was connected with the increase in balances on current accounts and demand deposits, partly offset by the decline in securities issued as they matured (-€1.8 billion).

€/thousands	30/6/2020	31/12/2019
Current accounts and demand deposits	83,932,378	80,905,313
Time deposits	6,253,034	6,483,273
Securities issued	14,595,336	16,378,138
Bonds	9,109,254	10,589,999
Other securities	5,486,082	5,788,139
Other payables	1,663,689	1,672,824
Financial liabilities measured at amortized cost – Direct funding from ordinary customers	**106,444,437**	**105,439,548**

The remainder of financial liabilities measured at amortized cost comprises funding from institutional customers (€46.4 billion) and includes: i) €16.6 billion in repurchase agreements, almost entirely with Clearing & Guarantee Fund, and operations on behalf of the Italian Treasury (OPTES); ii) €29.8 billion in amounts due to banks, of which €27.4 billion in targeted longer-term refinancing operations (T-LTROs) with the ECB and €2.4 billion in other amounts due to banks outside the Group for current accounts, deposits and repos. Amounts due to banks, of which more than 90% is represented by exposures to central banks, increased by a total of €11 billion, primarily reflecting the Group's new 2020 financial strategy cited earlier, which was adopted in response to the more expansionary monetary policy stance of the ECB (notably the expansion of access to the TLTRO-III program).

€/thousands	30/6/2020	31/12/2019
Loans	16,612,885	16,519,704
Repos	14,550,328	13,966,184
Other	2,062,557	2,553,520
Due to banks	29,832,621	18,873,746
Due to central banks	27,389,051	17,411,817
Due to banks	2,443,570	1,461,929
Current accounts and demand deposits	284,050	306,344
Time deposits	174,334	105,736
Loans and repurchase agreements	1,852,506	939,674
Other	132,679	110,175
Financial liabilities measured at amortized cost – Funding from institutional customers	**46,445,506**	**35,393,450**

Financial liabilities held for trading, in the amount of €305 million (+€141 million on 2019), include the negative fair value of trading derivatives.

Tax liabilities, totaling €104 million, include €77 million in deferred tax liabilities on temporarily non-taxable revenues.

Other liabilities amounted to about €3.6 billion, mainly including €1.4 billion in illiquid portfolio items, €627 million in amounts available to customers, €410 million of taxes payable for withholdings made and amounts to be paid, as well as €252 million in items being processed and other transit items.

Post-employment benefits for the Group totaled €299 million, while provisions for risks and charges, totaling €501 million, include provisions for credit risk in the amount of €206 million against commitments to disburse funds and financial guarantees issued.

Consolidated shareholders' equity

Consolidated shareholders' equity totaled €10.3 billion. Share capital includes the capital of the Parent Company, amounting to €1.4 billion, and the capital of the mutual banks, which, together with the Parent Company, constitute a single consolidating entity. Treasury shares mainly represent the capital of Iccrea Banca held by the affiliated banks consolidated in application of Article 1072 of Law 145/2018.

Reserves, totaling €8.6 billion, mainly include legal reserves of €10.1 billion and a negative IFRS 9 FTA reserve of €1.6 billion.

€/thousands	30/6/2020	31/12/2019
Share capital	2,314,349	2,313,691
Capital instruments	30,139	30,139
Share-premium reserve	148,039	146,702
Treasury shares	(1,212,252)	(1,212,256)
Valuation reserves	223,794	254,511
Reserves	8,592,318	8,390,591
Net profit for the period	122,123	238,478
Equity pertaining to shareholders of the Parent Company	**10,218,510**	**10,161,857**
Equity pertaining to non-controlling interests (+/-)	**71,459**	**70,737**
Total shareholders' equity	**10,289,969**	**10,232,594**

PERFORMANCE

Consolidated income statement

€/thousands	30/6/2020	30/6/2019
Net interest income	**1,210,967**	**1,218,173**
Net fee and commission income	**604,181**	**606,023**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	(652)	44,070
Net gain/(loss) on disposals	219,039	91,786
Gross income	**2,033,535**	**1,960,051**
Net writedowns/writebacks for credit risk	(387,495)	(261,307)
Gains/losses from contract modifications without cancellations	(2,010)	(649)
Net gains/(losses) from financial operations	**1,644,030**	**1,698,095**
Administrative expenses	(1,472,317)	(1,522,099)
a) personnel expenses	(833,691)	(826,810)
b) other administrative expenses	(638,626)	(695,288)
Depreciation, amortization and provisions	(151,229)	(94,730)
Other operating income/expense	165,747	158,412
Operating expenses	**(1,457,799)**	**(1,458,416)**
Profit/(loss) from equity investments	193	2,948
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(10,775)	(13,888)
Impairment of goodwill	(259)	-
Profit/(loss) from disposal of investments	(310)	3,180
Profit/(loss) before tax on continuing operations	**175,080**	**231,919**
Income tax expense from continuing operations	(48,455)	(50,540)
Net profit/(loss) for the period	**126,625**	**181,379**
Net profit/(loss) pertaining to non-controlling interests	**4,502**	**2,761**
Net profit/(loss) pertaining to the shareholders of the Parent Company	**122,123**	**178,619**

The Group closed the first half of 2020 with net profit of €126.6 million, of which €122.1 million pertaining to the shareholders of the Parent Company.

Net interest income, which was broadly unchanged on the same period of 2019, amounted to €1.2 billion, the net result of interest income of €1.5 billion (on loans to customers in the amount of €1.2 billion, included under financial assets measured at amortized cost) and interest expense of about €0.3 billion, mainly relating to amounts due to customers and securities issued recognized under financial liabilities measured at amortized cost.

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	Total 30/6/2020	Total 30/6/2019
Financial assets measured at fair value through profit or loss	5,305	2,055	47	7,407	7,320
Financial assets measured at fair value through other comprehensive income	26,329	-	-	26,329	37,628
Financial assets measured at amortized cost	188,571	1,173,317	-	1,361,887	1,421,691
Hedging derivatives	-	-	(18,126)	(18,126)	-
Other assets	-	-	1,226	1,226	1,047
Financial liabilities	-	-	80,677	80,677	58,133
Interest income and similar income	**220,205**	**1,175,372**	**63,824**	**1,459,401**	**1,525,819**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	Total 30/6/2020	Total 30/6/2019
Financial liabilities measured at amortized cost	(112,039)	(109,601)	-	(221,640)	(262,761)
Financial liabilities held for trading	-	(101)	(138)	(239)	(87)
Financial liabilities designated as at fair value	-	(199)	-	(199)	(676)
Other liabilities and provisions	-	-	(764)	(764)	(564)
Hedging derivatives	-	-	797	797	(23,583)
Financial assets	-	-	(26,389)	(26,389)	(19,975)
Interest and similar expense	**(112,039)**	**(109,901)**	**(26,494)**	**(248,434)**	**(307,646)**

Net fee and commission income in the first half of 2020 amounted to €0.6 billion, in line with the same period of 2019, and includes fee and commission income for a total of €0.7 billion (mainly relating to commissions for the management of current accounts, collection and payment services, and intermediation and advisory services) net of commission expense of around €61 million.

The reduction in net fee and commission income for collection and payment services and the management of current accounts compared with the corresponding period of the previous year reflects the contraction in the Italian economy in the first half as a result of the COVID-19 emergency.

Fee and commission income

€/thousands	30/6/2020	30/6/2019
Guarantees issued	12,347	13,574
Management, intermediation and advisory services	162,395	156,405
Collection and payment services	97,374	122,306
Servicing for securitization transactions	1,268	1,884
Services for factoring transactions	1,711	2,044
Management of current accounts	232,122	246,508
Other services	157,560	158,535
Fee and commission income	**664,777**	**701,256**

Fee and commission expense

€/thousands	30/6/2020	30/6/2019
Guarantees received	(925)	(1,326)
Management and intermediation services	(5,575)	(6,584)
Collection and payment services	(7,272)	(21,799)
Other services	(46,824)	(65,524)
Fee and commission expense	**(60,596)**	**(95,233)**

The net gain on disposals came to €219 million, a significant increase on the first half of 2019 (+€127 million), mainly reflecting the sale of government securities held in the HTC portfolio and other debt securities classified under assets measured at fair value through other comprehensive income.

Net writedowns for credit risk totaled €387 million, an increase of €126 million on the same period of 2019, mainly owing to the more prudent measures adopted by the Group to take account of the possible adverse impacts of the COVID-19 pandemic on the economy.

Operating expenses in the first half of 2020 amounted to €1.5 billion, broadly in line with the year-earlier period. The total reflected the following components:

- personnel expenses amounting to €0.8 billion, a slight increase on the first half of 2019 (+€7 million), reflecting additional hires connected with the establishment of the ICBG;
- other administrative expenses totaling €0.6 billion, down €57 million on the same period of 2019, mainly reflecting a decrease in the charge for the ordinary contribution to the mutual bank Deposit Guarantee Scheme (DGS) accounted for under this item. Part of that charge, while pertaining to 2020 (€35 million), was accounted for under provisions for risks pending a decision of the European Commission concerning the petition filed through the industry association to reduce the target level of the funds of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%. Other administrative expenses also declined compared with the total at June 30, 2019 as a result of a reduction in the project costs incurred in 2019 for the establishment of the Cooperative Banking Group and a reduction in costs incurred in certain expense categories during the lockdown (e.g. travel and entertainment, etc.);
- provisions, depreciation and amortization amounting to €151 million, up €56 million in reflection not only of the provision for risks noted earlier but also of the increase in net provisions for credit risk in respect of commitments and guarantees issued (+€14 million) partly connected with the re-estimation of ECLs in the light of macroeconomic developments;
- other net operating income amounted to €166 million, slightly up on the first six months of 2019 (+€7 million).

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table offers a breakdown of own funds at June 30, 2020, which amounted to €11.5 billion.

Capital and capital ratios – €/ thousands	30/06/2020	31/12/2019
Share capital	2,314,364	2,313,704
Share-premium reserve	148,518	147,180
Treasury shares and repurchase commitments	(1,239,658)	(1,226,433)
Reserves	8,851,670	8,649,127
Profit/(loss) for the period	(90,329)	(13,101)
Other comprehensive income	(32,126)	979
Transitional provisions	1,198,273	1,355,639
Goodwill (net of related tax effects)	(24,568)	(24,758)
Deductions – deferred tax assets	(59,484)	(56,327)
Intangible assets (net of related tax effects)	(124,746)	(120,488)
Prudential filters	(14,395)	(18,861)
Minority interests	16,672	18,283
Common Equity Tier 1 (CET1 ratio)	**10,944,191**	**11,024,947**
Additional Tier 1 (AT1)	34,658	35,046
Tier 1 (T1)	**10,978,849**	**11,059,993**
Eligible subordinated loans	485,275	559,284
Tier 2 (T2)	**485,275**	**559,284**
Total Capital (TC)	**11,464,124**	**11,619,277**

In light of the special accounting rules applicable[9] and the obligation under Article 38 of the Consolidated Banking Act for the affiliated banks to allocate at least 70% of annual earnings to reserves, own funds mainly include reserves (€8.8 billion), in addition to share capital in the amount of €2.3 billion (mainly composed of the shareholder contributions of the affiliated banks), which decreases to €1.1 billion after elimination of the capital of the Parent Company held by the affiliated banks (reported under treasury shares).

Compared with December 31, 2019, CET1 decreased by a total of about €80.7 million, essentially reflecting the following developments:

- an increase of about €202 million in reserves;
- an increase in the deduction for treasury shares in relation to the residual amount for the repurchase/redemption of shares authorized at the reporting date, in the amount of €13.2 million;
- an increase of about -€77 million in the loss for the period. The loss, equal to €90 million, considered for the purposes of calculating own funds takes account of the prudential rules for the treatment of profits and losses of the Group companies, which in compliance with the conditions set out in Article 26 of the CRR, resulted in (i) the exclusion of all profits as the requirements for their inclusion had not yet been met as at the reporting date; and (ii) the inclusion of all losses;
- a deterioration in the balance of other comprehensive income of about €33 million;
- a decrease of €157 million in the amount connected with the IFRS 9 transitional provisions as per Article 473-bis of Regulation (EU) 575/2013, as introduced by Regulation (EU) 2395/2017, which at June 30, 2020 was equal to about €1.2 billion, which enabled the offsetting of the increase in writedowns resulting from application of the new expected-credit-loss impairment model introduced with IFRS 9 (net of the related tax effects) in progressively decreasing percentages. This amount is represented by the algebraic sum of the following effects: (i) -€84 million for the change in the percentage applicable to the "old" static and dynamic components of the filter from 85% to 70%; and (ii) +€72 million for the offsetting of the impact connected with the increase in writedowns recognized at June 30, 2020 for performing exposures only (i.e. classified in stage 1 or stage 2 under the standard) in accordance with the changes to the filter introduced with Regulation (EU) 2020/873;[10]
- an increase in deductions connected with DTAs (-€3 million) and intangible assets (-€4 million), partly offset by a decrease in deductions connected with prudential filters (+€4 million, mainly attributable to the cash flow hedge reserve).

The overall decrease in total own funds (about -€155 million on December 2019) includes the reduction in Tier 2 capital (about -€74 million).

[9] Under Article 38, point 2 bis of Legislative Decree 136 of August 18, 2015 concerning bank financial statements, which establishes that in the case of the cooperative banking groups referred to in Article 37-bis of Legislative Decree 385 of September 1, 1993, the Parent Company and the mutual banks affiliated with it under the provisions of the cohesion contract represent a single consolidating entity.

[10] In this regard, Regulation (EU) 2020/873 makes it possible to add back to CET1 a progressively decreasing percentage of the increase in provisions compared with January 1, 2020, net of the associated tax effect, equal to 100% for 2020 and 2021, 75% for 2022, 50% for 2023 and 25% for 2024.

Capital adequacy

At June 30, 2020, the capital ratios stood at 16.1% for the CET1 ratio and 16.9% for the TCR, representing an increase compared with the values registered in December 2019 (respectively equal to 15.5% and 16.3%) and above the average for the national banking system.

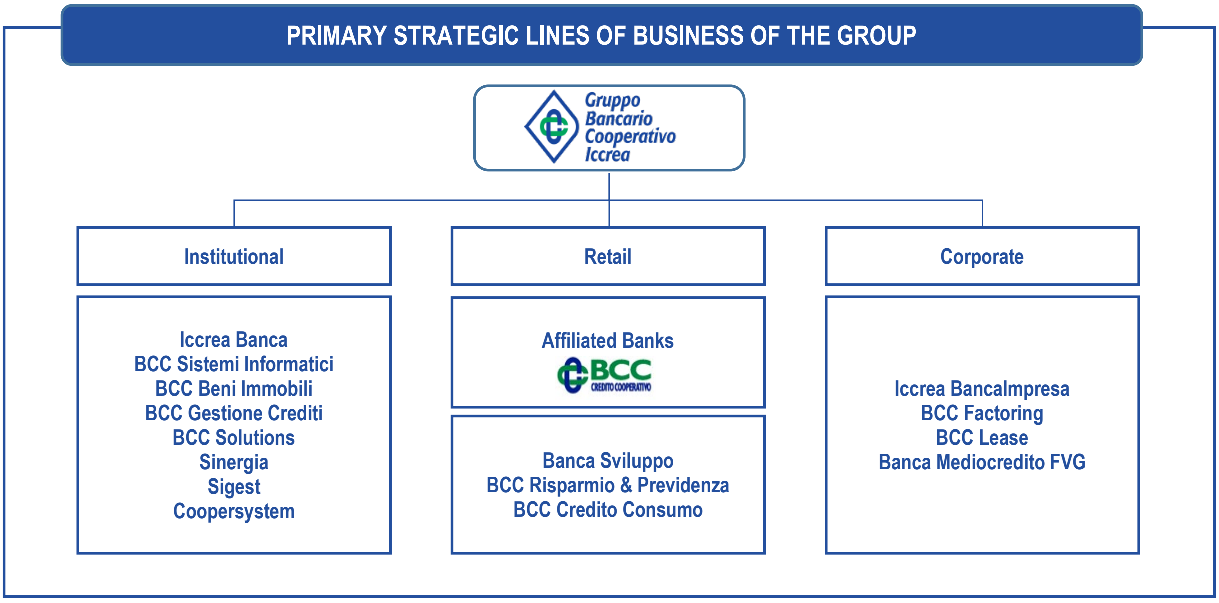
The chart below reports developments in risk-weighted assets (RWA) and in capital ratios in the period June 2019-June 2020.

The reduction in own funds discussed above – which also reflects the effects of the IFRS 9 phase-in, the inclusion of losses recorded at the individual level by the Group entities and the maturing of subordinated liabilities – was accompanied by a decrease in risk-weighted assets, mainly attributable to the RWAs for credit and counterparty risk (-€2.7 billion), essentially reflecting two macro-developments: (i) the early application, decided by the competent authorities as part of the response to the deterioration in macroeconomic conditions with Regulation 873/2020 (the so-called "CRR quick fix"), of the expansion envisaged in CRR 2 relating to the supporting factor applicable to exposures to small and medium-sized enterprises; and (ii) the benefits from the application of the provisions of the COVID decrees in respect of positions benefitting from State guarantees.

5. THE GROUP'S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES

The ICBG's model for offering products and services is based on an organizational structure (defined internally for operational purposes) that is divided into the following strategic lines of business, chosen on the basis of factors that management considers in making its operational and strategic decisions and consistent with IFRS 8's disclosure requirements.



The following tables show the main operational areas and the result of the individual business areas in which the Group operates. There is a specific segment for the mutual banks based on their unique qualities, in line with the sector regulations that distinguish and preserve the nature of cooperative banking.

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	508,834	14,793,971	81,185	57,236,445	(6,285,560)	66,334,875
Due from banks	209,058	30,557,825	633,645	12,748,687	(36,055,994)	8,093,221
Due from customers	8,211,706	6,111,827	1,152,371	72,151,955	(1,861,248)	85,766,612
Funding from banks	4,360,510	29,070,676	1,453,984	32,297,485	(37,350,035)	29,832,621
Funding from customers	917,916	17,317,972	318,573	90,233,169	(325,644)	108,461,986
Securities and other financial liabilities	3,129,825	5,324,142	35,803	11,880,467	(5,015,711)	15,354,525

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	89,221	22,699	30,213	1,048,806	20,027	1,210,966
Net fee and commission income	9,665	73,825	22,987	512,911	(15,207)	604,182
Other financial expense and income	385	95,088	(179)	167,997	(44,905)	218,386
Gross income	**99,271**	**191,613**	**53,021**	**1,729,714**	**(40,085)**	**2,033,535**
Net value adjustments	(80,713)	(11,880)	(14,330)	(282,802)	220	(389,505)
Net gains/(losses) from financial operations	**18,559**	**179,732**	**38,692**	**1,446,912**	**(39,864)**	**1,644,030**
Operating expenses	(48,112)	(151,771)	(27,406)	(1,241,636)	11,125	(1,457,800)
Other costs and revenues	(2,202)	(31,209)	(18)	(1,094)	23,372	(11,151)
Profit/(loss) from continuing operations	**(31,755)**	**(3,248)**	**11,268**	**204,182**	**(5,368)**	**175,079**
Income tax expense from continuing operations	204	(2,087)	(5,060)	(41,468)	(43)	(48,455)
Profit/(loss) for the period	**(31,551)**	**(5,335)**	**6,209**	**162,714**	**(5,411)**	**126,625**
Profit/(loss) pertaining to non-controlling interests	**(1,554)**	**4,790**	**1,266**	**-**	**-**	**4,502**
Profit/(loss) pertaining to shareholders of the Parent Company	**(29,998)**	**15,415**	**4,943**	**162,714**	**(30,951)**	**122,123**

INSTITUTIONAL BUSINESS AREA

Balance sheet

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other[11]	
	30/6/20	31/12/19	30/6/20	31/12/19	30/6/20	31/12/19	30/6/20	31/12/19	30/6/20	31/12/19
Cash and cash equivalents	90,665	246,137	2	2	2	2	1	2	1	3
Financial assets measured at fair value through profit or loss	1,503,723	1,279,864	-	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	925,232	367,133	17	17	2	2	3	3	-	-
Financial assets measured at amortized cost	49,388,556	42,551,042	12,971	12,654	11,564	3,331	8,637	6,137	25,993	15,405
a) due from banks	30,515,397	25,528,379	12,971	12,654	11,564	3,331	8,637	6,137	25,993	15,405
b) loans to customers	6,112,566	5,842,484	-	-	-	-	-	-	-	-
c) securities	12,760,592	11,180,178	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial assets	13,228	5,965	-	-	-	-	-	-	-	-
Equity investments	1,144,901	1,150,481	-	-	-	-	100	100	10	10
Property, plant and equipment	3,319	17,125	12,934	14,908	120,205	123,437	3,967	4,427	81,166	82,215
Intangible assets	1,856	53,946	38,558	33,388	257	326	1,264	1,140	1,375	1,090
Tax assets	82,171	80,178	1,700	1,730	64	29	882	855	3,330	3,298
Non-current assets and disposal groups held for sale	248,904	171,700	-	-	-	-	-	-	-	-
Other assets	422,368	152,988	20,088	20,671	5,356	10,494	12,658	9,892	16,129	16,644
Total assets	**53,824,923**	**46,076,559**	**86,270**	**83,370**	**137,450**	**137,621**	**27,512**	**22,557**	**128,005**	**118,665**

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	30/6/20	31/12/19	30/6/20	31/12/19	30/6/20	31/12/19	30/6/20	31/12/19	30/6/20	31/12/19
Financial liabilities measured at amortized cost	50,523,883	42,932,558	3,972	520	58,272	58,550	3,095	3,464	24,306	24,141
a) due to banks	28,955,540	20,782,376	-	-	45,234	44,766	182	290	21,229	20,452
b) due to customers	17,315,177	17,128,866	3,972	520	13,037	13,784	2,913	3,174	3,077	3,689
c) securities issued	4,253,167	5,021,316	-	-	-	-	-	-	-	-
Financial liabilities held for trading	594,706	381,867	-	-	-	-	-	-	-	-
Financial liabilities designated as at fair value	337,104	424,058	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities	137,866	118,344	-	-	-	-	-	-	-	-
Tax liabilities	1,290	1,407	119	-	192	-	582	2	1,559	1,641
Liabilities associated with assets held for sale	279,128	155,930	-	-	-	-	-	-	-	-
Other liabilities	232,175	329,426	37,109	38,704	21,182	21,202	19,359	15,800	21,077	15,229
Post-employment benefits	16,027	18,003	2,459	2,540	245	218	1,175	1,194	1,350	1,327
Provisions for risks and charges	8,578	10,476	1,608	1,454	48	46	973	971	507	456
Shareholders' equity	1,700,371	1,831,906	40,151	39,923	55,800	55,704	1,119	1,206	73,997	69,021
Profit/(loss) for the period	(6,207)	(127,417)	852	230	1,711	1,901	1,209	(80)	5,209	6,851
Total liabilities and equity	**53,824,923**	**46,076,559**	**86,270**	**83,370**	**137,450**	**137,621**	**27,512**	**22,557**	**128,005**	**118,665**

[11] "Other" includes BCC Gestione Crediti, Beni Immobili, Sigest and Coopersystem

Income statement

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	30/6/20	30/6/19	30/6/20	30/6/19	30/6/20	30/6/19	30/6/20	30/6/19	30/6/20	30/6/19
Net interest income	35,006	29,410	(75)	(94)	(672)	(685)	(46)	(72)	(120)	(147)
Net fee and commission income	26,875	33,830	-	-	(4)	(4)	(9)	(13)	5,096	5,726
Dividends	37,041	51,226	-	-	-	-	19	17	-	-
Net gain/(loss) on trading	7,581	5,013	(2)	-	-	-	-	-	-	-
Net gain/(loss) on hedging	(2,107)	(1,673)	-	-	-	-	-	-	-	-
Net gain/(loss) on disposals	48,964	20,781	-	-	-	-	-	-	-	-
Net gain/(loss) on financial assets and liabilities at FVTPL	(11,352)	144	-	-	-	-	-	-	-	-
Gross income	**142,008**	**138,731**	**(78)**	**(94)**	**(676)**	**(688)**	**(36)**	**(69)**	**4,977**	**5,579**
Net writedowns/writebacks for credit risk	(11,215)	(578)	-	-	-	-	-	-	-	12
Net gains/(losses) from financial operations	**130,794**	**138,153**	**(78)**	**(94)**	**(676)**	**(688)**	**(36)**	**(69)**	**4,977**	**5,591**
Administrative expenses	(153,182)	(140,026)	(47,148)	(38,407)	(13,856)	(13,038)	(27,600)	(25,492)	(8,299)	(9,760)
a) personnel expenses	(81,298)	(64,288)	(9,847)	(9,566)	(3,222)	(3,213)	(12,257)	(11,351)	(2,820)	(3,167)
b) other administrative expenses	(71,884)	(75,738)	(37,302)	(28,841)	(10,635)	(9,825)	(15,343)	(14,141)	(5,478)	(6,593)
Depreciation, amortization and provisions	(1,573)	(4,888)	(5,897)	(4,897)	(5,639)	(4,467)	(1,150)	(1,278)	(2,099)	(2,214)
Other operating expenses/income	68,131	(1,156)	54,363	42,790	22,614	19,661	30,573	27,843	12,147	12,615
Operating expenses	**(86,624)**	**(146,070)**	**1,318**	**(514)**	**3,119**	**2,156**	**1,824**	**1,073**	**1,749**	**640**
Profit/(loss) from equity investments	(25,540)	-	-	-	-	-	-	-	-	-
Profit/(loss) from disposal of investments	-	-	-	-	-	-	-	-	-	-
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-
Profit/(loss) before tax on continuing operations	**18,630**	**(7,918)**	**1,241**	**(608)**	**2,443**	**1,468**	**1,788**	**1,004**	**6,726**	**6,231**
Income tax expense from continuing operations	5,387	8,822	(389)	81	(731)	(485)	(578)	(318)	(1,517)	(1,611)
Profit/(loss) on discontinued operations after tax	(30,224)	16,130	-	-	-	-	-	-	-	-
Profit/(loss) for the period	**(6,207)**	**17,035**	**852**	**(527)**	**1,711**	**983**	**1,209**	**686**	**5,209**	**4,620**

This area includes the companies that provide products and services directly to the affiliated banks. The wide range of solutions available includes financial services, payment systems, securities administration, credit collection services, Web services, facility management, real estate services, and IT and back-office services, as well as logistical, administrative and infrastructure support. The main Group companies engaged in this area are Iccrea Banca – which as Parent Company carries out the management, coordination and control activities provided for under applicable law and the Cohesion Contract – BCC Sistemi Informatici, BCC Solutions, and Sinergia.

ICCREA BANCA SPA

In the current structure of the Group, Iccrea Banca, following the signing of the cohesion contract by the affiliated banks, performs the duties and responsibilities relating to strategic and operational oversight, coordination and control and interacts with the supervisory authorities.

To the traditional role of the second-level bank, which, in supporting the operations of the mutual banks, provides – in the spirit of partnership – products, services and advisory services to help them meet the needs of their shareholders, customers, households and local communities, we have therefore added duties connected with the new responsibilities of our role and with engaging in the activities need to ensure the consistency of the Group's strategic policy, operational governance, risk management, pursuit of industrial and operational synergies to achieve ever-improving levels of operational efficiency and effectiveness, and the development of production and distribution models.

Financial services

In continuity within the past, operational governance activities are conducted alongside the investment services provided by the Group Finance area, mainly to the affiliated banks and, through them, to their own customers. Of particular note among these services there is access to trading venues and over-the-counter (OTC) markets and the order receipt and intermediation service.

Within the scope of activities aimed at supporting and developing the businesses of the mutual banks and enhancing the management of financial risks for the entire Group, the Group Finance unit has ensured: (*i*) the management of financial assets, including with the definition and recommendation of investment strategies; (*ii*) development of the system for liquidity management; and (iii) capital and money-market activities and hedging. Within this context, and taking account of the cross-guarantee scheme adopted by the ICBG, Group Finance has ensured constant coverage of short and long-term funding needs and management of related interest-rate, currency and liquidity risk at the separate and consolidated levels. Of no lesser importance, Group Finance has ensured the maintenance of adequate levels of structural liquidity, even in the current market conditions resulting from the health emergency, which has required financial-service and other operators around the world to revise and strengthen their operational mechanisms to ensure structural liquidity and adequate service levels.

Finally, Group Finance coordinated the structuring and ongoing management, for the companies of the Group and for the affiliated banks, of structured finance operations, such as the securitization of performing exposures and of non-performing exposures backed by government guarantees.

In the first half of 2020, with regard to liquidity management, Group Finance ensured that the affiliated banks had the capacity to obtain collateralized funding by way of operations with the ECB and on the market. In response to the economic and financial crisis caused by the pandemic, efforts have continued to strengthen and further develop the management system following the extraordinary measures by the ECB aimed at loosening the suitability parameters and system of risk control applied to assets that can be used to back Eurosystem refinancing operations. In this regard, the first six months of the year were characterized by the expiration of the first two T-LTRO II operations (March and June) and their replacement with new T-LTRO III operations. Specifically, with regard to the T-LTRO II operations, the affiliated banks repaid approximately €15 billion, €12 billion of which related to banks within the Iccrea T-LTRO Group. As concerns participation in the T-LTRO III program, it should be noted that the Group holds about €26 billion in operations as at June 30, 2020, approximately €16.4 billion of which related to banks in the T-LTRO Group. Access to collateralized funding by way of the full use of the T-LTRO program has enabled ICBG companies to benefit from the new financial conditions set by the ECB in response to the crisis brought about by the spread of the COVID-19 pandemic. These conditions call for a rate, upon reaching the target for growth in lending, of -1% for the period June 24, 2020, to June 23, 2021, and equal to the average marginal deposit rate until expiration of the operations.

From the start of the year, activity on the MTS secured market (repo segment) posted price levels in line with and close to the marginal deposit rate. As at June 30, 2020, funding on this market totaled about €14 billion, about €9 billion of which in favor of the affiliated banks. Compared with the previous year, volumes through this channel increased by approximately €1 billion.

Access to collateralized funding by way of ECB operations and/or the market has enabled ICBG companies to stabilize the related cost of funding at -0.42%.

In line with the forecasts in the revised funding plan, the following operations were executed in the first half of the current year: (*i*) time deposits of about €1.6 billion, almost entirely through the affiliated banks; (*ii*) refinancing of the senior tranches of the GACS operations in the amount of about €400 million, with durations of 2 years and 7 months; and (*iii*) funding through the OPTES channel in the amount of €1.5 billion.

At June 30, the total amount of bonds issued by Iccrea Banca came to €4.3 billion, with a weighted-average residual maturity of 1.75 years.

With regard to treasury and forex operations, the Parent Company continued to support the affiliated banks by way of the forex and money market (FXMM) internet portal, thereby enabling them to trade in real time in spot, forward and swap transactions. In the first half of 2020, 35,000 contracts were handled on this portal for a total volume of around €2.8 billion, of which €1.9 billion in swaps, €760 million in spot transactions, and €75 million in outright transactions. Support in trading also continued, with volumes totaling €94 billion, mainly in the trading of swaps.

With regard to Italian government securities, within the scope of market making on the Hi-MTF and EurOil platforms, the first half of 2020 saw the listing of 114 securities for a total brokered of €1.8 billion. Trading continued on the Italy's MOT market, which posted 17% growth in volumes compared with the previous year to reach a total of €1.3 billion traded. Trading on the MTS, BondVision and Bloomberg platforms reserved for institutional investors also increased by 28% over the same period to reach a total of €20.8 billion traded. Within the context of market making for eurobonds, Iccrea Banca listed 251 eurobonds on the Hi-MTF market, 384 eurobonds on the EuroTLX market, and 184 eurobonds on Extramot and Euromot. Total volumes traded on these markets came to about €1.2 billion.

As regards OTC derivatives business, Iccrea Banca traded contracts for a total nominal volume of about €2 billion. Efforts continued in order to strengthen processes aimed at providing the products needed to hedge inflation-indexed instruments and fixed-rate loans, and at completing forward sales.

For the purposes of managing the banking book, interest-rate and inflation derivatives were used to hedge the financial instruments held in the financial portfolio for a total of €1.3 billion.

With regard to order collection on behalf of the affiliated banks, the first half of 2020 saw a marked increase in volumes handled compared with the same period of 2019. The total came to €8.7 billion, for an increase of 28.1% compared with the first half of the previous year. The equity segment, in particular, posted a volume increase of around 48%, supported by the high volatility of the Italian stock market's FTSE MIB index. The bond segment, too, posted growth in Italian government securities, increasing by 21.5% in volume (€6.2 billion as compared with €5.1 billion for the first half of 2019). This performance was driven mainly by the operations of the affiliated banks for their own portfolios, whereas the retail segment essentially replicated the volumes traded during the same period of the previous year.

With regard to primary market activities, Iccrea Banca acted as co-dealer for the sixth time while participating in the placement of the sixteenth issue of BTP Italia bonds. The total amount of subscriptions came to €1.73 billion, €798 million of which with the customers of the Group's 136 mutual banks and €935 million from shareholders. On the whole, the Group accounted for 7.8% of the entire issue. Of the total, the retail segment accounted for 5.7% of subscriptions executed during the initial placement, whereas the institutional segment accounted for 11.3% of the total.

At June 30, 2020, securities worth about €90 billion were held in custody and administration. During the period, approximately 15,000 transfers of financial instruments and 1,600 SICAVs were carried out in both directions, incoming and outgoing.

Iccrea Banca, as a qualified intermediary (QI) of the mutual banks in relations with the US Internal Revenue Service (IRS), sees to all the documentation and organizational and operational aspects connected with new legislation introduced by the American government since of 2018.

Payment systems

The digitization of payments and the rise of innovative solutions being offered by new, non-bank players has led Iccrea Banca to design instruments that have been made available to the Group and to our customers in order to facilitate there payments and collections.

Issues related to the spread of the COVID-19 pandemic have certainly aligned transaction volumes with those of 2019 while confirming the reduction in traditional products (e.g. checks, bank drafts, etc.), as SEPA products, such as credit transfers (SCTs), held their ground.

Within this context, Iccrea Banca has remained committed to maintaining existing services and developing new ones for the mutual banks, so as to enable them to respond to the emergency quickly. Of particular note among the Iccrea Banca initiatives related to the health emergency in the area of payments and collections are the following:

- the launch of the INPS *"DB condiviso"* service enabling the intermediary to verify the recipient account holder before executing credit transfers for pensions and other INPS funds (e.g. the "COVID bonus");
- the definition of the operating model for the new "Check IBAN" service provided by pagoPA S.p.A. to enable the inland revenue office and other government bodies to verify the recipient account holder before executing various types of credit transfer (e.g. non-repayable grants);
- the implementation of the plan to reorganize cash management services as proposed within the scope of the COBAN working group in order to ensure continuity in operations through the health emergency;
- management of the deferments allowed under governmental decrees for the payment of promissory notes and checks together with BCC SI and Iccrea's Legal Affairs unit;
- the activation of the archiving of contracts signed remotely (i.e. sent by customers to the bank via e-mail).

Iccrea Banca participates in the main working groups sponsored by ABI, CBI, EBA, the Electronic Invoicing and Dematerialization Observatory, ANORC and AgID. In addition, under the aegis of the European Payments Council (an associative body the European banking industry in charge of managing the SEPA payments scheme and liaising with the European authorities, Iccrea Banca:

- participates in international organizations and working groups on the development of SEPA mechanisms;
- has taken advantage of the option granted by the EPC to configure our banks as a group, with the consequent reduction in costs incurred for participation in SEPA as compared with the ordinary established prices.

This has been extended to the revision of the pricing of the services of CBI Scpa and PagoPA S.p.A. by taking advantage of the option agreed upon with CBI and PagoPA to configure the affiliated banks as a group, resulting in a reduction in the costs incurred by these banks.

Work has also continued on initiatives previously planned within the payment systems segment. In short:

- we have supported the mutual banks in activating the pagoPA technology-partner service, which enables them to activate government bodies on the pagoPA system in order to manage their collections by way of a digital platform in line with applicable laws and regulations;
- we have consolidated the operational intermediation and accounting services to non-bank payment-service providers (i.e. Satispay and the Lottomatica Group), thereby significantly increasing the volume of SDD, SCT, payment notices, and SEDA transactions;
- new, compliant document-retention services have been activated in relation to Iccrea being qualified as an accredited registrar, while continuing to obtain past "OPI/OIL" treasury documents from the mutual banks;
- our certification as an accredited registrar was confirmed following audits by the certification bodies concerned;
- the process for managing the storage of electronic invoices for group companies has been completed, along with the related activities of receipt and transmission with the SDI;
- we launched the "smart safe" service, which enables merchants to deposit cash in safes installed in their points of sale and have that cash credited to their mutual-bank current accounts and coin-service account;
- the new instant-payments product on the ECB's TIPS platform has been activated for incoming payments for the direct customers of Iccrea Banca, for Banca Sviluppo, and for an initial cluster of six affiliated mutual banks that have been certified for the BCC SI information system (with the remaining banks to be added in monthly blocks by November 2020).

A great deal of work has also been conducted in relation to the PSD2 project concerning the analysis of the impact of the PSD2 directive on the payment services currently offered by mutual banks and on new services that are to be activated by third parties authorized to access customer accounts by way of cooperative solutions (e.g. CBI Globe and others).

Electronic money

In the first half of 2020, Iccrea Banca continued to develop the electronic money business in order to optimize procedures and strengthen its range of products and services in keeping with strategic policies and to promote the growth of this business.

With regard to the number of cards, despite the reduced promotional efforts as a result of the COVID-19 emergency, the segment has seen essential stability in the main issuing metrics with some 3.8 million cards in operation (+0.1% from December 2019).

Conversely, the effects of the COVID-19 health emergency severely impacted transaction numbers during the period of lockdown. More specifically, during the first half of 2020, the issuing segment posted a decrease of €813 million (-8.5%) compared with the same period of 2019, whereas POS acquiring saw a decline of 7.2% compared with 2019 (down €449 million). However, it should be noted that the numbers for July and August have shown a clear recovery compared with the same periods of 2019, pointing to a potential, if partial, recovery in the second half of 2020.

A similar downward trend has been seen in ATM acquiring volumes (i.e. cash withdrawals), decreasing by €840 million (-18.9%) compared with the first half of 2019.

With regard to the ICBG affiliated banks specifically, we have seen the following:

- on the whole, the issuing segment (i.e. debit, prepaid and credit cards) posted a 3.5% increase in number of cards, driven mainly by debit cards (+4.5% for debit cards, +1.5% for credit cards, and +1.9% for prepaid cards);
- the acquiring segment posted a significant increase in POS transactions with large-scale distributors (+39.5%) as a result of the pandemic, whereas, on the whole, there has been a decrease of 99 million (-1.9%) in volumes compared with the first half of 2019 as mentioned above in relation to overall volumes, although to a lesser extent.

Within this context, fraud in issuing posted a net improvement compared with 2019. In 2020, the total loss due to fraud decreased by 3.8%. The total loss attributable to fraud in issuing came to 0.50 bps in transactions, posting a further decrease compared with the first half of 2019 (0.54 bps).

Information Technology

Within the scope of the overall reorganization following the creation of the Iccrea Cooperative Banking Group, the sale of the IT business units related to Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici, with the intention of this company becoming the Group's new hub for information systems and technology, was completed on July 1, 2020. For information on the ICT segment, see the section related to BCC Sistemi Informatici.

BCC SISTEMI INFORMATICI

Operationally, the information technology segment was significantly engaged in the following: (i) projects aimed at implementing the requirements of the Iccrea Cooperative Banking Group and ongoing adaptations in response to changes in the operational and legislative framework; (ii) projects related to the development of system architecture and functionality, to digitization and innovation (e.g. digital banking and the customer relationship), to management of core processes (i.e. lending); and (iii) projects related to the process of convergence of the affiliated banks using technical structures other than BCC SI to the proprietary structure and to the management of processes to merge the existing banks and sale of branches.

As concerns the application platforms needed to provide corporate functions, particularly with regard to European and domestic supervisory organs (e.g. consolidated financial reports, harmonized supervisory reporting, asset quality reviews, etc.), that have already been released and have been fully operational since early 2019, specific project streams have been put into place in order to reinforce the mechanisms supporting risk management (i.e. the early warning system, RAF/RAS framework, loan stress testing, credit risk control, corporate governance – related parties, and collateral management).

Despite the need to adjusting the schedule in response to the COVID-19 pandemic, the 2020 plan for the migration of the affiliated banks that use other platforms has thus far kept pace with the established schedule. Therefore, of the 11 migrations planned for the year, four were completed in the first half of the year, and no delays are expected for the second half of the year.

Completion of the migration of the remaining 18 banks to the BCC SI information system calls for a detailed plan for all of 2021 (12 initiatives) and a plan that is currently being defined for the first half of 2022 (six initiatives).

Taking account of the consolidation of the overall ICT segment within BCC SI as of July 1, 2020, provided below are the ICT costs incurred as at June 30, 2020, by Iccrea Banca and Iccrea BancaImpresa.

ICT operations – Iccrea Banca

Costs related to the ICT operations of Iccrea Banca in the first half of 2020 prior to transferring the business unit to BCC SI totaled €40.5 million and can be broken down as follows:

- personnel expenses in the amount of €7.8 million, which is proportionately lower than the estimated full-year budget of €18.4 million. This contraction can be attributed to the fact that the planned addition of a number of employees has been postponed to the second half of the year and is still being evaluated by the competent units of the Parent Company;
- depreciation and amortization in the amount of €8.6 million, which is proportionately lower than the estimated full-year budget of €22.9 million. It should be noted that the forecast for depreciation and amortization for December 31, 2020, is €19.2 million, given that the plan of project investments approved over time by the Costs and Investments Committee is less than original budget estimates. As a result, depreciation and amortization connected with investments for the year are also lower;
- other administrative expenses in the amount of €30.6 million, €26.6 million of which in running expenses and €3.7 million related to projects. On the whole, administrative expenses as at June 30, 2020, are proportionately lower than the full-year budget (of €83.1 million). Actual project costs as at June 30, 2020, totaled just €3.7 million, compared with an estimated full-year budget of approximately €20 million. Full-year forecasts for running expenses, on the other hand, are just below the allocated budget (of €63 million).

ICT operations – Iccrea BancaImpresa

Costs for the ICT operations of Iccrea BancaImpresa prior to the transfer of the business unit to BCC SI on July 1, 2020, as mentioned above, totaled €3.2 million net of €0.6 million in intercompany transactions with BCC SI. The actual figure as at June 30, 2020, which is in line with the full-year budget at €6.5 million, can be broken down as follows:

- personnel expenses in the amount of €0.9 million, which is in line with the full-year budget;
- other administrative expenses in the amount of €2.3 million, which is, over all, in line with the full-year budget;
- depreciation and amortization in the amount of €42 thousand, which is lower than the figure from the strategic plan (which called for investments to overhaul the IBI financing platform).

RETAIL BUSINESS AREA

Balance sheet

€/thousands	RETAIL							
	Mutual Banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019
Cash and cash equivalents	616,296	704,675	2	49	2	3	2,138	5,591
Financial assets measured at fair value through profit or loss	1,564,074	1,697,731	-	-	6,204	6,287	305	373
Financial assets measured at fair value through other comprehensive income	9,851,834	10,215,611	-	30	3	131	1,623	1,679
Financial assets measured at amortized cost	131,016,414	117,443,846	1,164,417	1,208,559	59,619	64,862	558,300	794,769
a) due from banks	12,876,549	9,465,787	254,139	256,990	32,161	30,972	347,397	341,968
b) loans to customers	72,151,955	71,492,772	910,278	951,569	27,458	33,890	139,400	378,390
c) securities	45,987,910	36,485,287	-	-	-	-	71,504	74,411
Hedging derivatives and value adjustments of macro-hedged financial assets	4,892	29,845	-	-	-	-	23	58
Equity investments	47,708	48,089	-	-	-	-	-	-
Property, plant and equipment	2,009,722	2,018,870	173	187	4,531	4,647	31,617	42,419
Intangible assets	29,321	33,480	755	740	486	688	1,169	1,188
Tax assets	1,682,311	1,715,339	10,148	10,059	1,083	735	58,838	59,538
Non-current assets and disposal groups held for sale	28,175	33,861	-	-	-	-	78,974	38,590
Other assets	1,267,544	1,306,295	89,010	106,729	2,583	1,655	47,967	69,206
Total assets	**148,342,687**	**135,379,560**	**1,264,504**	**1,326,352**	**74,509**	**79,007**	**780,955**	**1,013,412**

€/thousands	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019
Financial liabilities measured at amortized cost	134,292,657	122,079,290	1,184,451	1,219,320	26,381	26,588	417,567	742,192
a) due to banks	32,425,533	22,330,321	1,157,081	1,187,190	26,283	26,463	270,798	76,357
b) due to customers	90,233,169	86,999,896	27,370	32,130	98	125	117,679	589,622
c) securities issued	11,633,956	12,749,073	-	-	-	-	29,091	76,213
Financial liabilities held for trading	1,991	2,058	-	-	-	-	-	-
Financial liabilities designated as at fair value	7,393	10,973	-	-	-	-	-	488
Hedging derivatives and value adjustments of macro-hedged financial liabilities	304,193	218,502	-	-	-	-	-	3
Tax liabilities	95,982	97,893	-	574	257	461	1,045	1,226
Liabilities associated with assets held for sale	-	-	-	-	-	-	180,215	79,669
Other liabilities	3,147,648	2,620,051	14,014	26,451	13,296	11,324	43,244	44,872
Post-employment benefits	268,494	274,445	296	252	337	335	1,241	2,171
Provisions for risks and charges	395,917	340,026	88	59	3,557	2,074	14,457	17,590
Equity	9,554,824	9,288,762	61,823	60,896	25,896	25,826	125,591	124,486
Profit/(loss) for the period	162,589	336,559	3,831	18,799	4,785	12,400	(2,406)	717
Total liabilities and equity	**148,342,687**	**135,379,560**	**1,264,504**	**1,326,352**	**74,509**	**79,007**	**780,955**	**1,013,412**

Income statement

€/thousands	RETAIL							
	Mutual Banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/6/2020	30/6/2019	30/6/2020	30/6/2019	30/6/2020	30/6/2019	30/6/2020	30/6/2019
Net interest income	1,048,811	1,068,084	23,510	22,269	-	-	6,672	10,692
Net fee and commission income	512,906	510,564	2,328	2,561	18,717	16,899	1,974	5,267
Dividends	4,643	2,613	-	-	12	10		
Bet gain/(loss) on trading activities	1,745	7,731	-	-	-		(5)	(6)
Net gain/(loss) on hedging	116	(1,038)	-	-	-		2	4
Net gain/(loss) on disposals	170,040	71,549	(3)	-	-		(65)	(37)
Net gain/(loss) on assets and liabilities at FVTPL	(8,680)	12,949	-		(93)	28	(27)	8
Gross income	**1,729,582**	**1,672,452**	**25,835**	**24,830**	**18,637**	**16,937**	**8,552**	**15,928**
Net writedowns/writebacks for credit risk	(282,797)	(222,120)	(12,583)	(2,645)	-	-	(1,747)	753
Net gains/(losses) from financial operations	**1,446,785**	**1,450,331**	**13,252**	**22,185**	**18,637**	**16,937**	**6,805**	**16,681**
Administrative expenses	(1,261,829)	(1,279,180)	(8,089)	(8,824)	(9,977)	(11,086)	(10,250)	(18,665)
a) personnel expenses	(680,020)	(695,530)	(2,886)	(2,678)	(2,616)	(2,677)	(5,749)	(10,506)
b) other administrative expenses	(581,809)	(583,650)	(5,202)	(6,146)	(7,360)	(8,410)	(4,501)	(8,159)
Depreciation, amortization and provisions	(121,289)	(74,639)	(164)	(154)	(1,868)	(989)	(184)	(475)
Other operating expenses/income	141,489	145,112	1,118	1,087	245	325	1,764	2,311
Operating expenses	**(1,241,629)**	**(1,208,707)**	**(7,135)**	**(7,892)**	**(11,600)**	**(11,750)**	**(8,671)**	**(16,830)**
Profit/(loss) from equity investments	(381)	(68)	-	-	-	-		
Profit/(loss) from disposal of investments	(328)	2,910	-	-	-	-	(18)	270
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets	(130)	-	-	-	-	-		
Impairment of goodwill	(259)	-	-	-	-	-		
Profit/(loss) before tax on continuing operations	**204,057**	**244,466**	**6,117**	**14,293**	**7,037**	**5,187**	**(1,884)**	**121**
Income tax expense from continuing operations	(41,468)	(41,825)	(2,286)	(4,718)	(2,251)	(1,709)	(522)	167
Profit/(loss) on discontinued operations after tax	-	83						
Profit/(loss) for the period	**162,589**	**202,723**	**3,831**	**9,575**	**4,785**	**3,477**	**(2,406)**	**287**

AFFILIATED BANKS

The segment includes the mutual banks that represent the largest portion of the Group's consolidated assets (more than 80%, net of intercompany items). As fully explained above, the affiliated mutual banks traditionally work to promote the development of local communities and the local economy. The principle of mutualism, which is a distinctive characteristic of mutual banking, enables the banks to play a key role in the panorama of the national banking industry and makes them an important partner for households and small and medium-sized enterprises (SMEs).

For this segment, we provide below a description of the customer base and of the business model generally.

Balance sheet

As a general rule, the structure of the mutual banks' assets reflects the nature of local banking, characterized by a high level of funding from customers stemming from the historic ties that the mutual banks have with their local areas, with a prevalence of loans to households and small firms and a fairly low ratio of loans to deposits, as well as the investment of excess liquidity primarily in government securities.

What follows is a brief description of the main balance sheet and income statement items of the 136 mutual banks belonging to the Iccrea Cooperative Banking Group as at June 30, 2020, presented in aggregate form and gross of intercompany items.

Total assets at June 30, 2020, amounted to €148.3 billion, up €12.9 billion compared with the figures at December 31, 2019.

Financial assets measured at fair value through profit or loss came to €1.6 billion and mainly include financial assets mandatorily measured at fair value amounting to €1.5 billion (which also encompasses amounts due from the Parent Company for the *ex ante* contribution to the Guarantee Scheme) and assets held for trading of €40.6 million.

The portfolio of financial assets measured at fair value through other comprehensive income totaled €9.8 billion and mainly includes government securities.

With regard to financial assets measured at amortized cost:

- amounts due from banks came to about €14.3 billion, of which €1.4 billion for debt securities and the remainder for current accounts and demand deposits (€3.2 billion), fixed-term deposits (€8.4 billion) and claims on central banks, comprised mainly of reserve requirements (€0.9 billion);
- loans to customers amounted to €116.7 billion, of which €44.5 billion for debt securities and the remainder for medium/long-term loans to customers (€57.7 billion), current accounts (€7.8 billion) and other loans (€5.4 billion). Around €1.2 billion represent operations involving credit cards, personal loans and loans repaid by automatic deductions from wages.

The characteristics of the mutual banks' business model is reflected primarily by the type of customers served.

Counterparties	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances		
		Ratio to total loans by counterparty	Percentage of total performing loans of the affiliated banks	Ratio to total loans by counterparty	Ratio to total NPLs of the affiliated banks	Coverage NPL
Ordinary customers	88.9%	78.7%	87.7%	10.2%	100.0%	52.4%
Consumer households	35.5%	93.8%	37.1%	6.2%	21.5%	41.7%
Small and medium-sized enterprises	40.8%	89.4%	40.6%	10.6%	42.4%	50.0%
Producer households	*9.4%*	*87.8%*	*9.2%*	*12.2%*	*11.2%*	*47.0%*
Micro-enterprises, institutions and associations	*8.9%*	*85.2%*	*8.4%*	*14.8%*	*12.8%*	*51.7%*
Other SMEs	*22.5%*	*91.6%*	*23.0%*	*8.4%*	*18.4%*	*50.8%*
Large corporate	12.7%	67.3%	8.3%	32.7%	35.5%	61.6%
Government entities	0.8%	99.6%	0.9%	0.4%	0.0%	68.1%
Central banks, credit institutions and other financial companies	10.3%	99.5%	11.5%	0.5%	0.0%	47.8%
Total	**100.0%**	**89.8%**	**100.0%**	**10.2%**	**100.0%**	**52.4%**

Total loans disbursed by the mutual banks – equal to €86.2 billion at June 30, 2020, gross of intercompany items – were made largely to consumer households and SMEs (35.5% and 40.8% of total lending, respectively). The aggregate NPL ratio stood at 10.2%, while the coverage ratio for impaired loans was 52.4%.

A large part of the loans to SMEs are to producer households (sole proprietors) and micro-enterprises, which are small companies (fewer than 20 employees) in addition to institutions and associations. The mutual banking mission means that the mutual banks supported their local economies, even during periods of persistent crisis, so that, despite the credit crunch that has occurred in recent years, the mutual banks have continued to provide loans to households and SMEs; the default rates in these segments were nonetheless smaller (NPL ratios of 6.2% and 10.6%, respectively) thanks to a better understanding of these types of customers. The share of loans to larger firms (12.7% of the total) was more limited and registered a higher NPL ratio.

Financial investments totaled about €55.9 billion and consist almost entirely of government securities (especially those issued by the Italian State). About 80% are allocated to the portfolio measured at amortized cost (Hold-to-Collect, HTC, business model) in line with the traditional business model that characterizes these banks, in order to take advantage of the coupon yield and at the same time to not expose its funds to risks associated with volatility. Consistent with the mutualistic aim, the stock of securities allocated to the accounting portfolio measured at fair value through profit or loss is very small.

Stock of debt securities by accounting portfolio	Ratio to total debt securities
Amortized cost	84.3%
Fair value through profit or loss	0.1%
Fair value through other comprehensive income	15.6%
Total	**100.0%**

Property, plant and equipment, which amounted to about €2 billion, is mainly composed of buildings used in operations (€1.4 billion) and other capital goods.

Intangible assets came to €29.3 million, of which €8.9 million in goodwill paid to acquire bank branches prior to the formation of the Iccrea Cooperative Banking Group.

As for liabilities, having strong ties with the territory is the underlying reason for the high proportion of direct funding, in large part represented by funding from customers, especially current accounts and demand deposits, and to a lesser extent bonds and certificates of deposit.

In relation to this, liabilities largely consist of financial liabilities measured at amortized cost. More specifically:

- amounts due to banks totaled €32.4 billion, attributable to loans obtained through T-LTRO operations and refinancing transactions with the Parent Company;
- amounts due to customers amounted to €90.2 billion, mainly attributable to €82.9 billion for current accounts and demand deposits and €6 billion for fixed-term deposits. The remaining portion is made up of loans payable for €0.6 billion, amounts due in respect of leases for €0.3 billion and other liabilities for €0.4 billion;
- securities issued came to €11.6 billion, of which €6.1 billion represented by bonds and €5.5 billion by certificates of deposit.

Aggregate shareholders' equity amounted to €9.8 billion and consists of €0.9 billion of share capital, with the rest made up of reserves. The mutual banks' profit for the period amounted to €162.5 million, down €40.1 million on the same period of 2019.

Income statement

Net interest income amounted to €1 billion, the net result of interest and similar income of €1.3 billion, mainly on loans to customers, and interest and similar expense of €0.2 billion, composed in equal measure of amounts due to customers and securities issued.

Fee and commission income amounted to €0.6 billion, essentially attributable to the holding and management of current accounts for €231 million and collection and payment services for €164 million. Fee and commission expense totaled €76 million and is mainly ascribable to collection and payment services and securities custody and administration services (€67 million).

Net writedowns for credit risk amounted to €281 million.

Other administrative expenses refer largely to professional services for €159 million, indirect taxes and duties for €118 million, consumables and services for €159 million, and information technology for €70 million.

BCC CREDITOCONSUMO SPA

Within the scope of lending to retail customers, in the first half of 2020 BCC CreditoConsumo continued to distribute consumer credit products (exclusively personal loans) through the mutual bank branch network and the internet channel, where customers can use a form provided through the Crediper.it website to submit online loan applications.

Production in the first half of the year was heavily impacted by the COVID-19 emergency, settling at €146.3 million, a sharp decline (-35.7%) compared with the same period of the previous year (€227.7 million). Within the context of the new macroeconomic conditions, this result is essentially in line with the rest of the market in the segment of personal loans (-40.3% compared with the same period of the previous year).

Given the current contingencies associated with the COVID-19 emergency, the Iccrea Cooperative Banking Group has identified a number of temporary methodological refinements in the calculation of expected credit loss and, consequently, in the measurement of IFRS 9 impairment beginning with the figures as at June 2020. This analysis, conducted by the Parent Company's risk management unit, resulted in a total of €6.8 million in increased provisions for the performing-loan portfolio. The schedule shown below provides a summary breakdown of gross consumer lending to customers at June 30, 2020, by credit quality and with an indication of the related allowances and coverage percentage, along with the corresponding figures for December 31, 2019.

	Jun-20			Dec-19		
	Gross value	Writedowns	Coverage	Gross value	Writedowns	Coverage
Performing loans	931,274,657	(27,989,643)	3.1%	964,452,785	(21,671,926)	2.3%
Impaired past-due positions	9,597,392	(4,962,104)	51.7%	9,458,211	(4,615,376)	48.8%
Unlikely-to-pay positions	2,702,969	(1,876,740)	69.4%	1,441,638	(940,925)	65.3%
Bad loans	44,895,051	(43,424,297)	96.7%	41,889,313	(38,532,521)	92.0%
Loans to customers	**988,470,069**	**(78,252,784)**	**7.9%**	**1,017,241,947**	**(65,760,749)**	**6.5%**
Average Coverage of NPLs (%)			87.9%			83.5%

Balance sheet

Financial assets measured at amortized cost amounted to €1.2 billion and largely included consumer loans to customers (€910 million), with the remainder being loans to banks (€254 million).

Other assets, in the amount of €89 million, mainly include amounts due from the special-purpose vehicle in the self-securitization transaction.

Financial liabilities measured at amortized cost amounted to €1.2 billion, which is essentially in line with the end of December 2019, a figure that mainly includes amounts due to banks (€1.2 billion) and amounts payable to AGOS Ducato (€27 million) related to funding transactions. Other liabilities totaled €14 million, which is down from the €26.4 million of December 2019.

Income statement

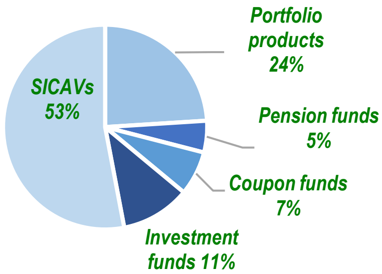
Performance for the period has been hindered by the impairment of financial assets. With regard to the other key components of the income statement, the following dynamics are of note:

- net interest income decreased by 5.6% compared with the previous year. Despite the downward trend in production in the second quarter, this positive performance was mainly the result of a lower cost of funding (-11.6% in interest expense and similar charges) due to the gradual restructuring of funding under way;
- net fee and commission income posted a decline of 9.1% compared with the same period of the previous year. This decrease can be attributed to a reduction in up-front commission income and expense as a result of the decline in Italy's economy in the first half of the year in reaction to the COVID-19 health emergency;
- administrative expenses decreased by 8.3% compared with the previous year. This reduction was mainly due to a decrease in marketing expenses as a result of postponing planned marketing campaigns during the lockdown.

BCC RISPARMIO&PREVIDENZA SGRPA

Assets under management as at June 30, 2020, totaled €17.2 billion, an increase of €268 million compared with the end of the previous year (€16.9 billion as at December 31, 2019). Market trends as a result of the COVID-109 pandemic have had a negative impact of about €506.2 million on the overall trend in assets under management.

The chart below shows the weight of each investment product out of total assets under management as at June 30, 2020.



Income statement

The period ended with pre-tax profit of about €7 million, up from the €1.9 million for the same period of 2019. This increase can be attributed to extraordinary components related to performance fees in the amount of €1.3 million paid on funds with high-water-mark (HWM) fees. Net of this non-recurring component, the increase compared with the same period of 2019 would have been €0.5 million.

Net profit, after estimated taxes of €2.2 million, came to €4.8 million, an increase of €1.3 million compared with the same period of 2019.

BANCA SVILUPPO SPA

In line with plans from recent years, Banca Sviluppo has been pursuing the strategic objective of completing the disposal of its sales network and, as per the latest 2020-2023 plan presented to the board of directors, the goal of shifting the organization towards new business models. The first half of 2020 was heavily impacted by the economic lockdown caused by the COVID-19 health emergency. The lockdown imposed by the series of decrees of Italy's Prime Minister have also had an inevitable impact on the business opportunities of our bank. The actions that were made necessary, such as reducing branch business hours, restrictions on access by customers and employees and the use of remote working, have significantly penalized normal branch operations, with a consequent impact, in particular, on the bank's service revenues, which were well below budget estimates.

In this environment, the bank has also continued with the planned sale of bank branches. In the second quarter, we completed three sales, which resulted in the definitive closure of the branches in the Campania region and reduced our presence in Romagna from 21 to seven branches. In Campania, two branches were sold to BCC di Capaccio Paestum e Serino, while in Romagna we completed the sale of 11 branches to BCC Ravennate Foirlivese Imolese and three branches to Credito Cooperativo Romagnolo.

As a result of those transactions, the balance sheet shrank considerably, with loans to customers in particular falling to just under €140 million from about €380 million at the end of 2019. Funding in the period declined from about €666 million to €147 million.

Income statement

The period ended June 30, 2020, closed with a pre-tax loss of €1.9 million and a net loss of €2.4 million. The following factors impacted negatively on performance for the period: (i) a decrease in revenues from services as a result of the COVID-19 health emergency; (ii) an increase in administrative costs; (iii) an increase in writedowns on loans to take account of the add-on required on average coverage; and (iv) the lack of deferred taxes on the increase in loan writedowns given the uncertainty of future earnings.

CORPORATE BUSINESS AREA

Balance sheet

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019
Cash and cash equivalents	11	11	2	1	-	1	2	3
Financial assets measured at fair value through profit or loss	157,314	163,019	-	-	-	-	26,980	27,584
Financial assets measured at fair value through other comprehensive income	758	365	-	-	11	10	96,605	140,114
Financial assets measured at amortized cost	7,194,622	7,335,926	450,242	470,677	274,769	497,687	853,651	796,517
a) due from banks	50,549	39,092	2,725	2,543	3,317	5,094	153,172	162,473
b) loans to customers	7,008,406	7,160,820	447,516	468,134	271,452	492,593	509,708	543,380
c) securities	135,666	136,014	-	-	-	-	190,771	90,664
Hedging derivatives and value adjustments of macro-hedged financial assets	-	-	-	-	-	-	-	-
Equity investments	63,200	62,338	-	-	-	-	-	-
Property, plant and equipment	6,016	6,048	58	88	85	63	11,012	11,168
Intangible assets	147	178	449	412	153	-	219	149
Tax assets	182,876	183,959	5,669	5,672	7,226	7,230	47,411	47,538
Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Other assets	84,382	60,027	17,772	15,272	4,205	9,081	4,768	5,810
Total assets	**7,689,324**	**7,811,870**	**474,190**	**492,123**	**286,448**	**514,072**	**1,040,648**	**1,028,882**

€/thousands	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019
Financial liabilities measured at amortized cost	6,785,338	6,890,209	427,140	437,821	261,663	490,632	882,297	847,443
a) due to banks	3,405,404	2,978,290	423,584	433,337	259,896	485,668	271,671	215,120
b) due to customers	326,831	440,660	3,556	4,483	1,767	4,964	585,762	606,947
c) securities issued	3,053,103	3,471,260	-	-	-	-	24,863	25,377
Financial liabilities held for trading	40,152	34,590	-	-	-	-	-	-
Financial liabilities designated as at fair value	-	-	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities	11,583	12,659	-	-	-	-	-	-
Tax liabilities	-	-	583	386	-	-	1,698	1,722
Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Other liabilities	88,779	83,615	12,123	15,347	6,026	5,734	40,453	59,339
Post-employment benefits	4,387	4,359	215	198	355	332	416	418
Provisions for risks and charges	51,078	49,441	83	79	654	487	21,057	21,077
Equity	732,158	731,663	29,824	28,884	18,487	18,455	97,927	104,267
Profit/(loss) for the period	(24,151)	5,334	4,223	9,408	(737)	(1,568)	(3,199)	(5,384)
Total liabilities and equity	**7,689,324**	**7,811,870**	**474,190**	**492,123**	**286,448**	**514,072**	**1,040,648**	**1,028,882**

Income statement

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/6/2020	30/6/2019	30/6/2020	30/6/2019	30/6/2020	30/6/2019	30/6/2020	30/6/2019
Net interest income	72,243	71,478	10,468	9,611	1,774	1,720	4,596	5,255
Net fee and commission income	6,252	5,485	(267)	(501)	1,286	1,187	2,594	2,721
Dividends	8,467	8,500			-	-		
Net gain/(loss) on trading activities	1,278	(269)			2	2	(43)	(52)
Net gain/(loss) on hedging	119	200					-	-
Net gain/(loss) on disposals	-	-	-	-			102	-
Net gain/(loss) on financial assets and liabilities at FVTPL	(2,988)	(2,269)					(415)	(663)
Gross income	**85,371**	**83,126**	**10,200**	**9,109**	**3,063**	**2,910**	**6,835**	**7,261**
Net writedowns/writebacks for credit risk	(72,846)	(31,005)	(4,052)	(2,550)	(142)	167	(3,672)	(4,004)
Net gains/(losses) from financial operations	**12,525**	**52,122**	**6,148**	**6,559**	**2,921**	**3,076**	**3,163**	**3,254**
Administrative expenses	(29,624)	(33,870)	(4,170)	(4,151)	(3,381)	(3,450)	(6,148)	(6,404)
a) personnel expenses	(17,098)	(16,494)	(1,471)	(1,483)	(1,849)	(1,851)	(3,229)	(3,393)
b) other administrative expenses	(12,525)	(17,376)	(2,700)	(2,668)	(1,532)	(1,599)	(2,920)	(3,011)
Depreciation, amortization and provisions	(2,518)	164	(111)	(42)	(220)	(154)	(173)	(868)
Other operating expenses/income	(4,384)	(4,540)	2,558	2,458	(19)	-	62	233
Operating expenses	**(36,525)**	**(38,245)**	**(1,723)**	**(1,735)**	**(3,620)**	**(3,604)**	**(6,260)**	**(7,039)**
Profit/(loss) from equity investments	(738)	(430)						
Profit/(loss) from disposal of investments								
Net gain/(loss) on measurement at FV of property, plant and equipment and intangible assets								
Impairment of goodwill								
Profit/(loss) before tax on continuing operations	**(24,738)**	**13,446**	**4,425**	**4,825**	**(699)**	**(528)**	**(3,097)**	**(3,785)**
Income tax expense from continuing operations	587	(3,488)	(201)	113	(38)	13	(102)	203
Profit/(loss) after tax on discontinued operations								
Profit/(loss) for the period	**(24,151)**	**9,958**	**4,223**	**4,938**	**(737)**	**(515)**	**(3,199)**	**(3,582)**

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

ICCREA BANCAIMPRESA SPA

As the corporate bank of the ICBG, Iccrea BancaImpresa provides financial consulting, services and solutions for SMEs. The bank's mission is to support micro-, small and medium-sized businesses through a broad-based offering that meets all their needs, while supplementing the products and services provided by the affiliated banks.

The industry segments in which the bank operates include leasing, lending, consulting for extraordinary finance, internationalization, insurance services, and support in accessing subsidies and incentives. The products of Iccrea BancaImpresa are distributed mainly by the Group's network of mutual banks with the support of 15 branch offices throughout the territory. The company also has an international presence with offices in Moscow and Tunis.

Through the subsidiary BCC Lease, the company serves the small-ticket business segment with operating and finance leases and special-purpose financing. Factoring products and services are provided through the subsidiary BCC Factoring.

Balance sheet

In 2020, Iccrea BancaImpresa issued about €0.5 billion in new financing, a decrease of 38% compared with the first half of the previous year due to the impact of the COVID-19 pandemic. A breakdown of this new financing by product is shown in the table below.

Product	30/06/2020	30/06/2019	% change
Medium & long term – New contracts	**456,372**	**739,411**	**-38%**
New Leasing	**157,502**	**291,312**	**-46%**
of which: Auto	2,125	3,832	-45%
Property	50,450	85,236	-41%
Nautical	110	7,694	-99%
Equipment	79,219	150,993	-48%
Industrial vehicles	25,598	43,557	-41%
New lending	**298,870**	**355,857**	**-16%**

A breakdown of the bank's loan portfolio by type of borrower and type of financing is shown in the tables below.

€/thousands	30/06/2020	31/12/2019	% change
1. Debt securities	**135,666**	**136,014**	**-0.3%**
a) Other financial companies	69,558	71,064	-2.1%
b) Non-financial companies	65,108	64,950	-1.8%
2. Financing to	**7,008,460**	**7,160,820**	**2.1%**
a) Government entities	132,192	145,948	-9.4%
b) Other financial companies	146,030	151,167	-3.4%
c) Non-financial companies	6,421,146	6,546,703	-1.9%
d) Producer households	309,038	317,002	-2.5%
Total	**7,144,072**	**7,296,834**	**-2.1%**

€/thousands	30/06/2020	31/12/2019	% change
Financing	**7,008,406**	**7,160,820**	**-2.1%**
Current accounts	109,621	123,483	-11.2%
Medium/long-term loans	2,402,008	2,419,732	-0.7%
Lease financing	4,049,976	4,177,635	-3.1%
Other lending	446,802	435,892	2.5%
Debt securities	**135,666**	**136,014**	**-0.3%**
Other debt securities	135,666	136,014	-0.3%
Total	**7,144,072**	**7,296,834**	**-2.1%**

The first half of 2020 confirmed the upward trend seen in recent years in credit quality, which is the result both of major de-risking efforts both in past years and ongoing by way of disposals of the non-performing portfolio and of significant efforts to cover that portfolio. On this latter aspect in particular, we have seen a significant increase in the coverage ratio for the period as compared with December 2019, as shown in the table below.

€/thousands	30/06/2020	31/12/2019	31/12/2018	31/12/2017
Gross impaired	1,370,112	1,388,066	1,697,467	1,861,249
Net impaired	606,904	659,167	852,973	993,474
Gross NPL ratio	17.1%	17.1%	20.0%	21.2%
NPL ratio	8.5%	9.0%	11.2%	12.6%
Coverage ratio	55.7%	52.5%	49.8%	46.6%

Income statement

In the first half of 2020, the bank posted a gross operating loss of €24.7 million, compared with a gross operating profit of €13.4 million for the same period of the previous year (down €28.1 million). Net of tax effects, the loss for the first half of the year amounted to €24.2 million, compared with profits of €10 million for the first half of the previous year. Performance for the period was impacted significantly by recognition of the impact of the pandemic, which led to total writedowns for credit risk (item 130) of €72.6 million, as compared with €31 million for the first half of 2019, an increase of €31.6 million due mainly to a redetermination of stage 1 and stage 2 credit risk.

Gross income increased slightly despite a decrease in profitability for the performing portfolio due to its re-pricing with the new production, which was characterized by lower average spreads against improved average PD numbers, due in part to decrease, at the same time, in the cost of funding.

The cost-to-income ratio at June 30, 2020, came to 44%, which is a slight improvement over December 2019.

BCC LEASE SPA

Balance sheet

BCC Lease operates in the various leasing segments typical of the small-ticket market. After the first two months that were practically normal, the first half of 2020, having felt the effects of the COVID-19 emergency, saw an essential shutdown in commercial operations for the subsequent three months, while operating cash flows increased significantly in connection with the loan repayment moratoriums. Beginning in late May and into June, we then saw a recovery in new lease agreements.

The first half of the year closed with 8,361 new lease agreements for a total of €88.5 million (as compared with 10,869 contracts for a total of €123.8 million during the same period of the previous year), a decrease of 23% in number and of 28% in value.

The production trends for the period are shown in the following table:

Amounts in €/thousands - Numbers in units	New contracts					
	30/06/2020		30/06/2019		% change	
	No.	Amount	No.	Amount	No.	Amount
Equipment vendor						
Operating leases	3,785	28,119	5,140	38,911	-26.4%	-27.7%
Equipment leasing	1,450	20,515	1,921	26,014	-24.5%	-21.1%
Special-purpose financing	2,518	22,196	2,637	23,796	-4.5%	-6.7%
Total vendor	**7,753**	**70,831**	**9,698**	**88,721**	**-20.1%**	**-20.2%**
Mutual banks						
Light commercial vehicle leasing	272	7,865	454	12,660	-40.1%	-37.9%
Equipment leasing	209	4,403	355	7,878	-41.1%	-44.1%
Heavy vehicle leasing	21	905	41	2,415	-48.8%	-62.5%
Total mutual banks	**502**	**13,173**	**850**	**22,953**	**-40.9%**	**-42.6%**
Other						
Industrial vehicle leasing – Car Server	-	-	75	1,717	-100.0%	-100.0%
Light commercial vehicle leasing – Agents	65	2,082	133	4,338	-51.1%	-35.4%
Heavy vehicle leasing – Agents	41	1,674	113	6,065	-63.7%	-72.4%
Total other	**106**	**4,476**	**321**	**12,121**	**-67.0%**	**-63.1%**
Total	**8,361**	**88,480**	**10,869**	**123,795**	**-23.1%**	**-28.5%**

Net lending came to €450 million at the end of the first half of the year, a decrease from the about €470 million posted at the end of December 2019.

In terms of risk profile, the company closed the year with an NPE ratio of 5.16% and a coverage ratio of 70.7%. The net NPE ratio came to 1.48%.

Income statement

The period closed with net profit of €4.2 million (€4.4 million before taxes), as compared with €4.9 million for the first half of 2019. The cost-to-income ratio (including in income net operating income or expense, which largely represents a characteristic margin related to contracts) is up slightly from the previous year (at 36.7%).

BCC FACTORING SPA

Commercial performance

After a first quarter that was essentially comparable to the same period of 2019 in terms of performance, in the second quarter the COVID-19 emergency had significant repercussions on the company's commercial performance and on the factoring market generally. At June 30, 2020, turnover for the first six months of the year (in the amount of €816,330 thousand) decreased by 13.97% compared with the first half of 2019 (€948,865 thousand), while outstanding decreased by 28.29% (going from €441,527 thousand to €316,623 thousand) and lending at the end of the period decreased by 25% (from €367,541 thousand to €275,602 thousand).

However, this decline in the company's main commercial indicators appears to be in line with the trend in Italy's factoring market as a whole. Based on ASSIFACT figures for June 30, 2020, the market saw a decline in turnover of 13.45%, a drop in outstanding of 11.63% (average outstanding for the first six months for BCC Factoring: -8.81%), and a decrease of 11.93% in advances and fees paid (vs. average lending and average interest-bearing lending for BCC Factoring for the same period were down 6.81% and 0.69%, respectively).

The effect of COVID-19 has not yet led to significant concern about expected losses with regard to the outstanding of acquired and operative customers. Apart from certain predictable requests for extensions on loans sold (currently operative in full compliance with the due dates of extensions granted), there are as yet no worrying signs of future disputes. However, sellers operating on a "non-notification" basis, with collection by BCC Factoring, are an issue of particular focus.

The first half of the year closed with a net loss of €0.7 million. Operating expenses as at June 30, 2020, totaled €3.6 million, which is essentially in line with the same period of the previous year. Personnel expenses are perfectly in line with the previous year, and there should be no major changes in the second half of the year, with the total expense for the year coming in below expectations. The workforce as at June 30 totaled 36 employees.

Other administrative expenses fell by a total of €0.7 million (-4.20%), including a significant reduction in VAT costs due in part to savings achieved after the introduction of Group VAT in June 2019 and to a decrease in IT spending.

The coverage ratio of unlikely-to-pay (UTP) exposures and bad loans is in line with the RAS coefficients and with the policies adopted at an average of 51.73%, 91.61% for bad loans and 39.45% for UTPs (not backed by Iccrea BancaImpresa guarantees). Overall, gross NPLs amounted to €11.2 million, of which bad loans in the amount of €1.3 million, unlikely-to-pay exposures of €8.8 million, and impaired past-due positions of €1.1 million. At December 31, 2019, bad loans amounted to €1.4 million, with unlikely-to-pay exposures at €9 million and impaired past-due positions at €0.6 million.

BANCA MEDIOCREDITO FVG SPA

Banca Mediocredito del Friuli Venezia Giulia S.p.A. specializes in mainly medium and long-term loans and is responsible for the subsidized loan granted through subsidized financing instruments that the Region of Friuli (in part under Revolving Funds) and other public entities have made available to businesses.

In 2020, work continued on integrating the bank into the Group by adopting additional operating models and policies. In this regard, the bank participates in the Group VAT scheme and, since July 1, 2019, in the Group tax consolidation scheme.

In the first half of 2020, the operations of the bank again focused on lending to businesses in the Friuli–Venezia Giulia region with medium and long-term ordinary and subsidized financing operations. In the first half of 2020, the company also handled significant volumes of applications for subsidized financing connected with the COVID-19 epidemic making use of the anti-crisis sections of regional revolving funds, as well as of applications for moratoriums submitted by businesses in accordance with measures issued by the Italian government.

Within the scope of strategies of company repositioning, work continued to restore equilibrium to the structure of interest-bearing liabilities with a reduction in the more concentrated, less stable component.

Balance sheet

At June 30, 2020, net loans to customers totaled €510 million, as compared with €543 million at the end of 2019. Direct funding from customers came to €329 million, a decrease of 12.99% from the end of 2019 due to the specific strategy currently adopted to restructure interest-bearing liabilities and reduce the cost of funding.

New lending to businesses in the Friuli–Venezia Giulia region in 2020 totaled €45 million, of which €16 million related to non-subsidized lending with the remainder being in lending based on third-party funds.

Gross impaired loans as at June 30, 2020, decreased significantly compared with the end of 2019 (-6.7%) as a result of payments received (€7.4 million), returns to performing status (€3.3 million), and write-offs (€1.2 million). The NPE ratio fell by 20% from the end of 2019 to 19.78%, while the net ratio went from 11.42% to 11.09%.

Income statement

The income statement shows a net loss of €3.2 million at June 30, 2020, compared with a net loss of €3.6 million for 2019. In addition to the decrease in net interest income, this performance was affected by the decrease the value of in assets measured at fair value through profit or loss (€0.4 million) and the increase in the cost of risk (€3.8 million), which takes prudent account of the potential effects of the pandemic on the ability of businesses to repay their loans.

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

The income statement and balance sheet presented below have been reclassified based on management criteria for the purpose of facilitating comparability of information.

Following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business — which calls for the spin-off of the activities relating to this sector into a new company (Ventis S.p.A.), which was established on December 20, 2018 — and in application of IFRS 5, in the interim financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items related to assets held for sale.

In addition, following the resolution of the Board of Directors of December 13, 2018, work continued on developing the Group's ICT project and, within the scope of the overall reorganization following the creation of the Iccrea Cooperative Banking Group, the sale of the IT business units of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici was completed as of July 1, 2020, with the latter company officially becoming the new hub of information systems and technology for the Group. In the interim financial statements for Iccrea Banca, the items related to the IT business unit have been reclassified under the balance sheet and income statement items related to assets held for sale in accordance with IFRS 5.

Given the above, for the purposes of comparability of the results of the Parent Company with the previous period, the figures related to the two business units being sold have been reallocated to the related items in the schedules provided below.

BALANCE SHEET

Assets

€/thousands	30/06/2020	31/12/2019
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	34,140,127	29,273,773
Financial assets measured at amortized cost – *Due from customers – Loans*	6,113,121	5,843,040
Financial assets measured at amortized cost – *Due from customers – Securities*	9,135,863	7,434,784
Financial assets measured at fair value through profit or loss	1,503,723	1,279,864
Financial assets measured at fair value through other comprehensive income	925,232	367,133
Equity investments	1,144,901	1,155,401
Other assets	599,803	315,037
Total interest-bearing assets	**53,562,769**	**45,669,032**
Other non-interest-bearing assets	262,154	407,527
Total assets	**53,824,923**	**46,076,559**

Total assets at June 30, 2020, amounted to €53.8 billion, an increase on the €46.1 billion posted at the end of December 2019, due mainly to the following factors:

- an increase in financial assets measured at fair value through profit or loss (FVTPL) as a result of investments by the Parent Company (exclusively in debt securities) as manager of the Guarantee Scheme (up €19 million) and an increase in derivatives trading (up €209 million, a change that is also seen in the analogous item on the liability side);
- a decrease in assets mandatorily measured at fair value due mainly to a reduction in the value of units in collective investment undertakings (down €14 million, €6 million of which due to redemptions of Securis real estate funds and capital losses in the amount of €8 million), which was only partially offset by an increase in the value of equity securities (up €2 million) and debt securities, mainly issued by banks (up €6 million);
- an increase in financial assets measured at fair value through other comprehensive income (FVOCI) attributable to the purchase of debt securities (up €566 million, mainly euro-area government securities) in reflection of the strategy of repositioning towards HTCS business model in the first half of 2020, and the decrease in the value of equity securities (down €5 million on AT1s issued by the mutual banks) and in the equity instruments of insurance companies (down €4 million, of which €2 million attributable to the sale of Assimoco shares and €2 million to capital losses on Cattolica shares);
- an increase in amounts due from banks as a result of an increase in collateralized loans within the Group (up €4 million) and of the liability for reserve requirement funds of the mutual banks (up €805 million), which was partially offset by a decrease in purchases of debt securities (down €121 million);
- an increase in loans to customers measured at amortized cost attributable to repo transactions with Cassa Compensazione & Garanzia (up €351 million) and to the purchase of government securities (up €1.7 billion) related to the Group's new financial strategy.

€/thousands	30/06/2020	31/12/2019
Mutual banks	21,425,737	17,955,094
Other credit institutions	12,714,390	11,318,679
Due from banks	**34,140,127**	**29,273,773**

Lending to the mutual banks posted a substantial increase (up €3.5 billion) to reach about €21 billion. These loans, disbursed with pool collateral, include approximately €16.5 billion in operations with the ECB (T-LTRO II in the amount of €78 million and T-LTRO III in the amount of €16.4 billion), with the residual component being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) include €6.9 billion in intercompany receivables. Of this financing, €6.4 billion was granted to Iccrea BancaImpresa and €1.6 million was refinanced by the Parent Company with the central bank by way of the "ABACO" procedure and using €2.4 billion in collateral.

€/thousands	30/06/2020	31/12/2019
Current accounts	70,227	309,093
Medium/long-term loans	64,715	69,886
Repurchase agreements	3,236,369	2,885,420
Other transactions	2,734,520	2,571,123
Impaired assets	7,290	7,519
Due from customers	**6,113,121**	**5,843,040**

Loans to ordinary customers remained essentially stable at around €6.1 billion and include €1.9 billion related to intercompany loans and €3.2 billion to repurchase agreements with the clearing and guarantee fund, Cassa Compensazione & Garanzia.

The investment portfolio referring to HTC securities, which is made up of government securities, shows a balance at June 2020 of €9.1 billion.

The portfolio of financial assets measured at fair value through profit or loss (€1.5 billion) increased by €224 million from December 31, 2019, due mainly to the increase in derivatives trading (up €209 million) and to management of the guarantee scheme (€19 million).

Financial assets measured at fair value through other comprehensive income, referring to the HCTS business model, are mainly made up of government securities and show a balance of €925 million at June 30, 2020.

Equity investments amounted to €1.2 billion, increasing (by €15 million) from December 31, 2019, due to the subscription of the increase towards the future capital increase of BCC Vita.

Liabilities and equity

€/thousands	30/06/2020	31/12/2019
Financial liabilities measured at amortized cost – *Due to banks*	28,955,540	20,782,376
Financial liabilities measured at amortized cost – *Due to customers*	17,417,775	17,228,036
Financial liabilities measured at amortized cost – *Securities issued*	4,253,167	5,021,316
Financial liabilities held for trading	594,706	381,867
Financial liabilities designated as at fair value	337,104	424,058
Other liabilities	404,017	384,215
Total interest-bearing liabilities	**51,962,310**	**44,221,870**
Other non-interest-bearing liabilities	168,450	150,200
Shareholders' equity	1,700,371	1,831,906
Profit/(loss) for the period (+/-)	(6,207)	(127,417)
Total liabilities and equity	**53,824,923**	**46,076,559**

Interest-bearing funding totaled €52 billion, an increase (of €7.7 billion) compared with December 31, 2019, due to the following factors:

- an increase in amounts due to banks as a result of the increase in time deposits (up €2.3 billion) – almost entirely with the affiliated banks – and in funding from the ECB (up €4.6 billion). A similar trend can be seen in current accounts and demand deposits (up €884 million);
- an increase in amounts due to customers due to an increase in repo transactions with Cassa Compensazione & Garanzia (€638 million), which was offset by a decrease in operations on behalf of the Italian Treasury (OPTES) with the Ministry of the Economy and Finance (down €500 million);
- a decrease in securities issued, which can be attributed almost entirely to securities reaching maturity (down €614 million) and to the early redemption of subordinated bonds placed with the mutual banks (down €118 million) as authorized by the ECB. The remainder of the change is attributable to market-making activities involving our own bonds;

- an increase in liabilities held for trading, attributable mainly to trading derivatives (up €212 million, a change that can also be seen the analogous item on the asset side);
- a decrease in financial liabilities designated as at fair value related to financing received from the affiliated banks (the Ex Ante Quota) in relation to the Guarantee Scheme (down €87million) due to repayments made in January 2020.

€/thousands	30/06/2020	31/12/2019
Mutual banks	11,254,979	8,177,376
Other credit institutions	17,700,561	12,605,000
Due to banks	**28,955,540**	**20,782,376**

Interbank deposits, which include €4.7 billion in deposits for reserve obligations for the mutual banks, amounted to €29 billion. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €2.4 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the T-LTRO II in the amount of €78 million and the T-LTRO III in the amount of €16.4 billion, while the remainder refers to intercompany transactions.

€/thousands	30/06/2020	31/12/2019
Current accounts and deposits	885,541	1,009,117
Financing	15,927,492	15,789,731
Other payables	604,742	429,188
Due to customers	**17,417,775**	**17,228,036**

Funding from customers came to €17.4 billion, a slight increase (of €190 million) compared with December 31, 2019. This increase is due to an increase in repurchase agreements (up €638 million) offset by a decrease in OPTES operations (down €500 million).

Securities issued as at June 30, 2020, amounted to €4.3 billion, a decrease (of €768 million) from December 2019 due to their natural maturity or early redemption.

Equity

At June 30, 2020, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion and remains unchanged from 2019. Shareholders' equity, excluding earnings for the period, amounted to €1.7 billion, a decrease (of €135 million) compared with December 31, 2019. Changes are mainly due to a decrease in valuation reserves (down €4 million) as a result of the decreasing value of the FVOCI portfolio and to the net loss for 2019 that has been carried forward (down €127.4 million).

Income statement

€/thousands	30/06/2020	30/06/2019
Net interest income	**35,006**	**29,410**
Gains/losses on financial transactions	43,086	32,792
Dividends	37,041	51,226
Net fee and commission income	**68,749**	**75,320**
Other operating expenses/income	78,845	33,349
Gross income	**262,727**	**222,098**
Personnel expenses	(91,961)	(65,081)
Other administrative expenses	(130,687)	(135,396)
Net adjustments of property, plant and equipment and intangible assets	(10,077)	(5,251)
Total operating expenses	**(232,724)**	**(205,728)**
Gross operating profit	**30,003**	**16,370**
Net provisions for risks and charges	(787)	(427)
Net losses/recoveries on impairment of loans and other financial transactions	(11,218)	(631)
Total provisions and adjustments	**(12,005)**	**(1,058)**
Profit/(loss) from equity investments	(25,540)	(2,322)
Profit/(loss) before tax	**(7,542)**	**12,989**
Income tax expense	1,335	3,141
Profit/(Loss) for the period	**(6,207)**	**16,130**

The net loss for the period is €6.2 million, a decrease in performance (down €22.3 million) compared with June 2019.

The main factors that had an impact on financial performance for the period include:

- an increase in net interest income due to: (*i*) the revaluation of BTPi securities linked to European and Italian inflation (up €1.2 million), which account for 30% of the total HTC portfolio; (*ii*) the contribution of negative-interest funding from the ECB (up €5.6 million) and from the MEF for the OPTES operations (up €2.6 million); (*iii*) a decrease in interest expense paid on bonds issued (€2.8 million) in relation to the aforementioned reduction in such bonds; (*iv*) interest income on subordinated bonds issued by the mutual banks in relation to the strengthening of the Group's capital in November 2019 (up €2.5 million). These increases were partially offset by a decrease in interest on the financing of the companies within the direct scope (down €7 million) in relation to the replacement of bonds with other short-term forms of financing, in addition to the tiering investment accounts, which had a further negative impact of €1.5 million;

- an total increase of €43 million in profits and losses on other financial transactions due mainly to profits recognized in January 2020 with the sale of about €0.8 billion in government securities held in the HTC portfolio. Conversely, while the first half of 2019 had benefited from capital gains on the NEXI (€7.4 million) and Visa (€3.6 million) securities, losses have been recognized on equity securities (€3.3 million, of which €3.1 million on Visa) and on units in collective investment undertakings (€3.8 million) in the portfolio mandatorily measured at fair value, as well as on debt securities (€3.8 million). Gains on trading in the securities and derivatives segment (€2.5 million) helped to offset these losses;

- a decrease in dividends received (down €14.2 million). The decrease in dividends on equity investments in Iccrea BancaImpresa (down €23.8 million) and BCC Gestione Crediti (down €2.1 million) was only partially offset by an increase in dividends paid by the shareholdings BCC Risparmio & Previdenza (up €2.8 million), BCC CreditoConsumo (up €5.8 million) and BCC Solutions (up €3.7 million). In addition, as at June 2020, dividends were not received from SIA or Cattolica, which had both paid dividends in the first half of 2019 totaling €0.3 million;

- a decrease in net fee and commission income (down €6.6 million) due mainly to a reduction in spending with payment cards and in intermediation more generally as a result of the lockdown in response to the health emergency. In the first half of 2019, net fee and commission income also benefited from fees and commissions on the extraordinary (GACS) securitization operations conducted under the coordination of the Parent Company;

- an increase in other operating expenses/income due mainly to the increased billing of services related to the new ICBG. Class-1 and Class-2 services increased by €17.3 million and €16 million, respectively, in relation to the fact that the mutual banks were billed for a full six-month period (vs. just three months in the first half of 2019, given that the Group was established in March), while recoveries for project services came to €12.5 million (an item that was not applicable in 2019);

- an increase in losses on controlling equity interests recognized in relation to Iccrea BancaImpresa and Banca Sviluppo for a total of €25.5 million (up €23.2 million compared with the first half of 2019).

In relation to these factors, gross income at June 30, 2020, including other operating income (€78.8 million) related to the reclassification of fees received from the mutual banks for direction, coordination and other intercompany services within core operating revenues, came to €262.7 million, an increase of €40.6 million compared with the first half of the previous year.

Operating expenses (€232.7 million) increased (by €27 million) compared with the first half of 2019 due mainly to the following: (i) an increase in personnel expenses (from €65.1 to €92.0 million) as a result in the new size of the workforce following creation of the ICBG; (ii) a slight increase in other administrative expenses, given that the increase in contributions to the Resolution Fund (up €8.1 million) compared with the previous period was followed by the recognition of past-period adjustments (down €7.5 million) due to the revision of errors in costs recognized in 2019; (iii) an increase in depreciation and amortization (up €4.8 million) as a result of capital expenditure made during the year in order to establish the ICBG.

In addition to the aforementioned adjustments to equity investments, adjustments for credit risk had a significant impact on performance for the period, having increased significantly from the €0.6 million of the first half of 2019 to €11.2 million for the period under review. These adjustments can be attributed to loans in the amount of €4 million and securities in the amount of €7.2 million and regard the increase in provisions made necessary by the changes in the macroeconomic environment in the wake of the spread of the COVID-19 pandemic.

ASSETS HELD FOR SALE

Electronic money business

Iccrea Banca has evaluated the opportunity to set up a new company within the Iccrea Banking Group, in the form of an electronic money institution to which we can transfer and focus the activities related to the electronic money business.

Creation of a company for the electronic money business – as authorized by the Bank of Italy – meets the need of segregating this specific business in order to promote greater focus on the segment and facilitate potential partnerships in the future.

The decision to establish a dedicated legal entity to manage the e-money business is, in fact, oriented towards the achievement of: a) a possible expansion of the reference market; b) greater organizational and operational flexibility functional to the characteristics of the market; c) an improvement in time-to-market due to the convergence and centralization of all functional and technological components; and d) greater consistency in the management of capital absorption with respect to the specific business. The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current electronic money business, including the employees, assets, and other legal relationships pertaining to it.

The financial performance and standing of the e-money division is shown below.

Balance sheet

€/thousands	30/06/2020
Financial assets measured at amortized cost	555
Property, plant and equipment	2
Intangible assets	3,012
Other assets	149,608
Total assets	**153,177**

€/thousands	30/06/2020
Financial liabilities measured at amortized cost	102,598
Other liabilities	38,072
Post-employment benefits	462
Provisions for risks and charges	1,797
Profit/(loss) for the period (+/-)	10,248
Total liabilities and shareholders' equity	**153,177**

Financial liabilities measured at amortized cost include total monies connected with prepaid cards.

Income statement

€/thousands	30/06/2020
Fee and commission income	150,656
Fee and commission expense	(112,838)
Net fee and commission income	**37,818**
Gross income	**37,818**
Net income/(loss) from financial operations	**37,818**
Administrative expenses:	(31,031)
a) personnel expenses	*(2,820)*
b) other administrative expenses	*(28,210)*
Net provisions for risks and charges	(289)
b) other net provisions	*(289)*
Net losses/recoveries on impairment of loans and other transactions	(3)
Net writedowns/writebacks of property, plant and equipment and intangible assets	(342)
Other operating expenses/income	8,146
Operating expenses	**(23,519)**
Profit/(loss) before tax on continuing operations	**14,299**
Income tax expense	**(4,052)**
Net profit/(loss) for the period	**10,248**

ICT business unit

The project to transfer the ICT business unit by Iccrea Banca and Iccrea BancaImpresa with the reorganization and consequent outsourcing of ICT to BCC Sistemi Informatici is part of a broader, more complex ICT strategy initiated by the Parent Company in 2015 and resumed immediately following the establishment of the ICBG.

Given the particular nature of the transformation taking place in the mutual banking segment and within the ICBG specifically, a plan for the development of the ICT segment was defined that encompasses investments in resources, processes and infrastructures in line with the strategies of the Group and calls for:

- in an initial phase, the creation, based on BCC Sistemi Informatici, of a single hub of information systems and technology for the ICBG into which the Group's ICT activities will flow, while safeguarding current operations and processes within a landscape of profound transformation;
- over the medium term, the convergence and full integration of all ICT components of the ICBG into BCC SI by developing the segment to support and facilitate operations and the future processes of the affiliated banks and of the Group.

The expected medium to long-term benefits include a significant increase in service levels and a general improvement in the ICT system, so as to support business growth throughout the Group as a result of the ICT integration, convergence and evolution within the scope of the project. Over the short term, we will see increased levels of ICT integration between the Parent Company and the affiliated banks, particularly within all areas of governance and risk management.

The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current ICT segment, including the employees, assets, and other legal relationships pertaining to it.

The financial performance and standing of the ICT division is shown below.

Balance sheet

€/thousands	30/06/2020
Property, plant and equipment	12,677
Intangible assets	55,233
Other assets	27,826
Total assets	**95,727**

€/thousands	30/06/2020
Financial liabilities measured at amortized cost	35
Other liabilities	133,735
Post-employment benefits	1,860
Provisions for risks and charges	569
Profit/(Loss) for the period	(40,472)
Total liabilities and shareholders' equity	**95,727**

Income Statement

€/thousands	30/06/2020
Fee and commission income	4,056
Fee and commission expense	-
Net fee and commission income	**4,056**
Gross income	**4,056**
Net gains/(losses) from financial operations	**4,056**
Administrative expenses:	(38,435)
a) personnel expenses	*(7,843)*
b) other administrative expenses	*(30,593)*
Net writedowns/writebacks of property, equipment and intangible assets	(8,661)
Other operating expenses/income	2,568
Operating expenses	**(47,095)**
Profit/(loss) before tax on continuing operations	**(40,472)**
Income tax expense	**-**
Profit/(Loss) for the period	**(40,472)**

7. SIGNIFICANT EVENTS DURING THE PERIOD

Measures taken in response to the COVID-19 health emergency

Right from the early stages of the health and social emergency in Italy, the Group has continue to pay the utmost attention to the indications of the authorities aimed at protecting public health and safeguarding consumer interests and has then adapted processes and the organization in a timely manner to ensure the necessary safety in the workplace and in relations with customers and with stakeholders generally, as well as to ensure business and service continuity for all members of the Group. This has included the immediate creation, within the Parent Company, of a specific cross-functional COVID-19 emergency task force, which has constantly assessed the evolving circumstances and made the decisions that have been needed over time, with the goal of providing adequate mechanisms of coordination and ensuring harmonization in the interpretation of the various measures and guidelines issued by Italian and European government bodies and other authorities and in the solutions implemented throughout the Group.

The main areas of action of the COVID-19 task force concerned:

- monitoring developments in the legislative framework by analyzing and interpreting government measures and information released by the competent authorities, as well as the steps taken by other national players and by the various banks within the Group;
- interacting with the authorities for questions, clarifications and requests for amendments, including in collaboration with Federcasse;
- distribution of the guidelines and interpretations to the affiliated banks and other companies of the direct scope and the handling of requests for clarification and assistance by the affiliated banks and the companies of the direct scope;
- the definition of measures to increase the efficiency of operating processes and to strengthen the servicing measures offered by the companies of the Group;
- the identification and implementation of technical solutions to help customers access services remotely and to help the banks handle the growing volume of business related to the health emergency;
- the definition of ways to adapt information technology, to implement contingency solutions to support operations in the lending segment, and to monitor related developments.

With regard to safety and continuity in operations, the necessary steps were guided and coordinated in order to ensure the safety of employees, customers and vendors – in addition to the necessary communications with other internal and external stakeholders – and to ensure the continuity of critical services.

The main solutions implemented in order to respond to the emergency during the lockdown, while mitigating risks and ensuring continuity in operations, have been based primarily on the extension and timely activation of remote working and on the coordinated management of opening branches to the public.

It should be noted, first of all, that the Group adheres to the protocol of intent established between Federcasse and the trade unions for the mutual banking industry in order to avoid large gatherings and limit the spread of the virus, as well as to help safeguard the health of mutual bank employees.

In this regard, remote working for nearly all corporate staff and a large part of the personnel of branches and other offices that are open to the public immediately arose as the most effective way to protect employee health without compromising the orderly conduction of operations.

Remote working was also quickly adopted in relation to service operations and the provision of access to systems. Available infrastructures enabled us to ensure the effective operation of systems supporting new operating procedures while ensuring compliance and the management of the various projects underway essentially in line with established plans.

With regard to systemic processes, beginning with the Group's business continuity plan, the critical activities and emergency solutions related to the unavailability of facilities and personnel have been analyzed, giving priority to the areas of operations that handle customer-related processes and services.

The employees of units conducting critical activities, of those that handle systemic processes, and of those that work with the markets have been given the ability to work from home. In situations in which the job requires physical presence in the workplace, shifts have been organized in such a way as to reduce the risk of infection and consequent lack of critical personnel.

For the network of operating branches of the various banks and other companies of the Group, a uniform, coordinated approach for their opening and, where necessary, selective closure has been established. Access has been governed by precise rules aimed at ensuring social distancing. Throughout the lockdown, customers have been kept informed by way of the timely posting of in-branch notices and using the usual means of communication as to the need to keep branch visits limited exclusively to transactions that must be done in branch and other needs that cannot be postponed. Branch access has been ensured – by appointments made by phone and in more limited numbers – only for urgent transactions that cannot be done by remote channels or automated teller machines as determined by the bank. In any event, where necessary, urgent transactions that cannot be postponed related to essential public services have been ensured.

In order to facilitate activation of the Cure Italy and Liquidity Decrees of the Italian government and industry accords (i.e. the ABI moratoriums, *Imprese in Ripresa 2.0*, and *Accordo con Associazione dei Consumatori*), we immediately activated solutions aimed at their execution and qualification by the companies of the Group, along with the production of daily reports and other information aimed at detailed monitoring of both the level of execution and its related impact, particularly in terms of the quality of the loan portfolio. A direct expression of this reporting and information can also be seen in the new, specific supervisory reports activated in this regard (see below).

In this regard, it is also important to note the actions aimed at ensuring a response to dynamics in lending and related risk factors (the “COVID-19 Plan”) in order to adapt and strengthen the operational model for lending and related management strategies to the changing landscape, while ensuring a timely response to the needs of the customer, as well as to respond to the potential deterioration of the loan portfolio and promote the main initiatives defined within the scope of the Operational Plan that accompanies the Group’s NPE strategy.

The granting of credit within the Group is based mainly on the framework of Group’s policies in this regard, which are inspired by applicable laws and regulations, by the principle of sound and prudent management, by industry best practice, and by the principle of proportionality in the application of lending rules. In confirming the implementation of this system even within the context of the COVID-19 emergency, the Group has, in certain specific cases, deemed it appropriate to adapt this framework so as to facilitate application of governmental and industry-association measures and to meet the needs of our customers.

Therefore, beginning in March 2020, the companies of the Group were provided with the following:

- general operational guidelines concerning the approach and mechanisms to be used when granting credit, monitoring and classifying loan-facilitation measures, and evaluating guarantees in light of the particular circumstances of the moment;
- strategic operational guidelines for the handling of moratoriums to support customers.

In this regard, we have:

- streamlined loan-origination processes and the acceptance of applications by customers given the exceptional nature of this period, while also preserving the principle of sound and prudent credit management;
- allowed temporary exceptions to Group policies limited to the perimeter of lending operations falling within the sphere of application of the measures of the Cure Italy and Liquidity decrees and of the ABI moratoriums;
- enhanced the constant monitoring and control of the measures granted;
- maintained and reinforced the principle of the separation of roles as governed by Group policies with regard to the granting and execution of credit and the close observation of borrowers who had already shown anomalies prior to the pandemic, while assessing the resilience of exposures and the validity of the management strategies undertaken.

In order to best manage the process of assessing creditworthiness, with a particular emphasis on corporate customers, we have defined a number of areas for closer attention – reinforcing the credit standards of the ordinary assessment of borrowers – based on the type of customer and the type of transaction.

In light of the related EBA guidelines, we have also issued specific instructions to the companies of the Group for the proper classification of the established measures, including specifying the types of suspensions and the conditions which, if met, do not result in the automatic classification of the exposure subject to a moratorium as forborne.

The areas of action identified has allowed for the adequate overall management of operations underlying the lending process throughout the peak phases of the emergency with very high percentages of approval of the requests for moratorium and financing (as summarized in the table below), while maintaining constant monitoring of portfolio quality, of dynamics in lending, and of related risk factors.

Cure Italy moratoriums	**Number (thousands)**	**Amount (€/billions)**
Applications received	219	23.6
Applications approved	205	21.9
% applications approved	*94%*	*93%*
New financing under the Liquidity Decree (Article 13)	**Number (thousands)**	**Amount (€/billions)**
Applications received	95	3.2
Financing granted	74	1.8
% financing granted	*78%*	*56%*

By the close of the period under review, the total number of moratorium applications based on the various types of intervention (legislation, ABI, and individual initiative) agreed upon by the companies of the Group came to about 205,000 (out of some 219,000 applications received), for a total gross exposure of €21.9 billion (equal to about 26% of the Group's total loan portfolio with ordinary customers).

With regard to the additional lending measures adopted nationwide (i.e. the Liquidity Decree), by the close of the period under review the Group had received some 95,000 applications for a total value of €3.2 billion. Loans totaling €1.8 billion were disbursed in response to these applications. The vast majority of these actions (about 78% in terms of volumes disbursed) concerned new loans with a maximum value of €25,000 and backed by the Central Guarantee Fund (Article 13(1)(m) of Decree Law 23 of April 8, 2020). Within the loans disbursed, we have seen a substantial focus on captive customers, with only a minimal part being loans to new borrowers.

The implications of the health emergency, particularly in terms of its impact on the lending industry, affect all aspects of the Group's credit risk assessment and management framework and, in this sense, have called for action to supplement and/or adapt processes and methodologies aimed, generally speaking, in two main directions:

- the identification and constant monitoring of key information related to the loan portfolio impacted by application of the support measures established by applicable COVID-19 legislation. This has entailed, practically speaking, the incorporation of these new dimensions of analysis within the ordinary processes of credit-risk monitoring and control and of the production of related separate and consolidated reporting within the Group, including in response to the requests for information received from the supervisory authorities;
- the revision of credit-risk forecasting metrics to factor in the new aspects of analysis related to the COVID-19 emergency (e.g. updated macroeconomic scenarios and the effect of support measures) within the scope of ordinary measurement processes and, in particular, within the IFRS 9 impairment framework.

With regard to the need for internal information and the complex framework of reporting to the organization's governing bodies, since the start of the health emergency risk monitoring and detection has been intensified in order to respond to the main risk dynamics (i.e. credit risk, financial risk and operational risk).

As concerns the monitoring of credit risk, specific summary information related to credit-risk efforts under way in connection with the COVID-19 emergency has been brought to the attention of the corporate bodies of the Parent Company (i.e. the Risks Committee and the Board of Directors), including:

- information related to the process of monitoring lending operations with regard to COVID-19, with a particular emphasis on the support measures approved for customers and the main analyses of and trends in the Group's overall loan portfolio;
- simulations – initially conducted based on an assumption of static financials and on information available at the time, as well as on an initial version of the macroeconomic scenarios generated in response to the COVID-19 emergency and subsequently updated – of the additional provisioning for the Group's loan portfolio expected for 2020;
- the main trends in the credit risk profile.

After the supervisory authority had issued specific guidelines accompanied by *ad hoc* requests for banks to provide qualitative and quantitative information, the Parent Company established a cross-functional control room to coordinate and produce the information requested by the supervisory authorities on a weekly and monthly basis.

Thus far, in line with the requests for information issued by the supervisory authorities, the Group has prepared the following COVID-19 reports at the consolidated level:

- "COVID-19 Emergency Measures – Moratoriums and lending", a template issued to the Bank of Italy on a weekly basis;
- "SSM COVID-19 reporting", a template issued monthly to the ECB JST together with the ICBG's monthly closing package for the balance sheet, income statement, and risk-weighted assets (RWAs);
- "COVID-19 Questionnaire: Customer relations and support measures", which is sent on a semi-monthly basis to the Bank of Italy and provides information on relations with the customers of the affiliated banks within the context of COVID-19 (e.g. access to online banking, legislative moratoriums, government-backed lending, complaints, and other issues related to the pandemic);
- "COVID-19 Impact – Weekly credit monitoring", submitted weekly to the ECB JST, which provides a risk-based presentation of the numbers and trends for the Group's loan portfolio, with a specific focus on operations related to the COVID-19 emergency and related support measures.

In order to ensure an integrated, cross-functional management of the Group's risks, including with regard to the monitoring of financial risks, risk monitoring efforts have been intensified with the production of periodic reports to the corporate bodies concerning the trends in the main indicators for the financial markets, on the outcome of the monitoring of (operational and structural) liquidity risk for the ICBG and by liquidity sub-group, and on the outcome of the monitoring of market and counterparty risk.

With regard to operational risk, the Loss Data Collection process has been further intensified, particularly as concerns the collection of operational loss data and/or the extraordinary costs incurred by the various legal entities in order to ensure business continuity, as has the monitoring of IT and cyber incidents, which, in recent months, has been oriented more towards identifying any causal links of events to the pandemic.

Within this context, in addition to the above in relation to credit risk (e.g. determination of the need for additional provisioning for the loan portfolio, post-COVID impact simulations in calculating ECL), we have conducted analyses and assessments aimed at simulating the potential impact of various risk profiles brought about by the changing external landscape and have presented specific ICAAP and ILAAP-like analyses at both the separate and consolidated levels, as well as analyses of the resilience of the individual affiliated banks.

This set of analyses and simulations provided fundamental input and opportunities for consistency checks to support the Group's revised budget – approved by the Board of Directors of the Parent Company on August 7, 2020 – and the related realignment of the main risk governance processes for 2020 (RAS 2020 for the Group, the companies of the direct scope, and the affiliated banks).

Finally, within the scope of initiatives in response to the COVID-19 emergency, we have activated market solutions in the following areas:

- insurance, with the provision of two separate COVID-19 insurance policies, one aimed at covering the employees and shareholders of the affiliated banks and one to be offered to business customers to cover their employees;
- payment systems and electronic money, with an offering to promote the acceptance of remote micropayments using cards with reimbursement of the merchant fees for payments of €10 or less. In addition, we have eliminated rental fees and fees for new PayWay Mail activations for all of 2020. In order to promote the use of electronic money and limit the need to come into a branch, we have provided the option to increase withdrawal and spending limits for debit cards and have increased the ATM withdrawal limits for Bancomat cards until the end of the health emergency;
- operating leases and consumer credit, providing the option of both a reduced lease payment for six months with consequent extension of the operating lease agreement and the suspension for up to three months of payments on loans for customers who are experiencing difficulties as defined under Article 54 of Decree Law 18/2020.

Within the scope of efforts related to the ongoing development of digital banking, we are currently working on:

- a new function to enable both the bank and customers to upload, share and sign documents using strong customer authentication (SCA);
- a technical infrastructure to handle investment orders via phone.

In line with recommendations by the Bank of Italy concerning communications with customers, a Group site has been created for the COVID-19 emergency with the goal of providing customers with up-to-date information and offering the mutual banks a communication tool that can be integrated into their respective sites, which includes:

- FAQs for more information;
- a means of making appointments via online forms on the sites of the mutual banks (updated daily with information of open branches and changes in branch hours).

We have also issued specific communications to customers who use RelaxBanking in order to promote the use of digital tools. In the same way, a notice was sent to all customers who fall within the scope of the decree.

Finally, we have created a dedicated page on the Coopera website – a brand dedicated to civil society – in order to bring together, safeguard and, at the same time, not lose track of available support initiatives once the health emergency has passed.

New plan and internal reorganization of the companies within the "direct scope"

Following a process that began in November 2019 and ended in March 2020 during the height of the health emergency, the Parent Company approved the Group's 2020-2023 Strategic Plan, although only in terms of strategies and targets.

This decision was deemed to be fundamental to launching the more relevant strategic initiatives contained in the plan, which focus on efficiency in operations and strengthening commercial efforts and credit management.

As a whole, these "essential" actions make up the ICBG Transformation Plan, as approved by the Iccrea Banca Board of Directors on March 30, 2020, which establishes the actions that the Group intends to carry out in our current unstable market.

This Transformation Plan includes actions aimed at revising and streamlining the organization of the companies within the direct scope of consolidation with a view to increasing the operating efficiency of the Group and to realizing the full potential of the affiliated banks, as described in greater detail below.

Reorganization of the Group's ICT model

One of the primary objectives of this process of transformation that the Group has undertaken is the reorganization and evolution of information systems, functions and processes in order to develop greater value creation through investments in resources and infrastructure. The Group has, therefore, returned to the development efforts – which began in 2015 and were then suspended in favor of other priority projects related to creation of the ICBG – aimed at creating a single platform for the Group in order to increase the efficiency and effectiveness of the system of internal controls, to enhance integration between the various entities of the Group, and to complete the ICBG's digital transformation.

Initially, this evolution calls for the creation, based on BCC SI, of a single hub of information systems and technology for the ICBG that will encompass the ICT activities of the Group and, over the medium term, will see the complete convergence and integration of all components of ICBG ICT within BCC SI.

The goal of revising the operating model of this unified IT company has reached an initial, fundamental milestone of the authorization by the supervisory authority for the incorporation of this single company dedicated to ICT.

Therefore, as mentioned previously, during the first half of the year and effective as of July 1, 2020, we have completed an initial consolidation of the capabilities of the various entities of the Group into BCC SI by transferring the ICT business units of Iccrea Banca and Iccrea BancaImpresa, for which we have conducted an increase in capital reserved for the transferring entities for a total of €63.5 million.

At the same time, work has also continued on the migration of the affiliated banks who use other platforms (23 mutual banks at the end of September) to BCC SI, completion of which is expected over the next three years.

Reorganization of the Group's retail segment – Bancassurance

Following the start of operations for the Group, work began on the reorganization of the bancassurance segment, including the renewal of the partnership with the Cattolica Group until 2020, and a total revision of the model of business management within the Group, which is currently highly complex and heterogeneous given the number of organizations and parties involved, including the company BCC Retail.

In this regard, in order to support the growth and modernization of business, the Group has set the strategic priority of developing the segment by redesigning the business model and the partnership with the Cattolica Group (as the primary provider of insurance solutions through the companies BCC Vita and BCC Assicurazioni).

The main lines of development concern the creation of a single Group competency center for insurance to serve the compound needs of the affiliated banks, including by redefining the role of BCC Retail and strengthening its operations, while also reorganizing the local commercial and operational offices. Within this context, and with a view to optimizing commercial and operational processes and approaches, we began the process of evolving the segment in the first half of the year, which calls for:

- the creation of BCC Servizi Assicurativi, an insurance agency established out of the transformation of BCC Retail into a limited liability company and the consolidation within this company of a number of regional agencies in order to serve as the unified hub for insurance within the Group;
- definition of the role and focus of BCC Servizi Assicurativi, including actions aimed at transferring commercial activities and related resources to the business divisions of the Parent Company, while maintaining operations within these divisions.

Therefore, effective as of August 13, 2020, BCC Retail Scarl was transformed from a limited-liability consortium to a limited-liability company and took on the new name of BCC Servizi Assicurativi Srl.

Reorganization of the Group's retail segment – Electronic money

In the first half of the year, work continued towards creating the company for Iccrea Banca's electronic money business, which calls for the convergence of all functional and technological components by spinning off the electronic money business (issuing and acquiring) into the company Ventis SpA, which was created on December 20, 2018, with the goal of achieving greater organizational and operational efficiency, at improving time to market as a result of converging all functional and technological components related to this business, and at potentially expanding the market concerned. This operation is a preparatory step in developing electronic money issuing and payment services within Ventis SpA to support the affiliated banks with a view to improving service levels to them and their customers and to realizing the full commercial potential of this segment.

Transformation of Sinergia into a joint-stock company

Within the scope of the broader strategic plan aimed at rationalizing and optimizing the Group's operating costs, Sinergia, in which Iccrea Banca holds a 70% interest, represents the specialist hub in terms of processes and capabilities in which to converge assets, resources and services to support the affiliated banks. Within this context, and continuing the rationalization of the shareholding structures of the companies of the ICBG that began in the fourth quarter of 2019, Iccrea Banca issued to all shareholders and irrevocable offer to purchase their shares held in the Company.

On June 15, the shareholders also approved the transformation of Sinergia from a joint-stock consortium company to a joint-stock company, the effectiveness of which is expected in the coming months.

Reorganization of the Group's corporate segment

In order to maximize the potential synergies and efficiencies of the model/process aimed at improving the level of service provided to the affiliated banks, we have also established a plan to evolve the corporate segment, which calls for the reorganization of the companies of the direct scope that operate within this segment.

Budget review and new planning process

In the second quarter, we began revising the Group's overall budget process once the macroeconomic landscape had achieved greater stability.

In the fourth quarter of 2020, planning will begin, based on existing strategic guidelines and established targets, in order to update the Group's long-term forecasts.

Implementation and development of the ICBG commercial and marketing strategy

In the first half of 2020, the Iccrea Cooperative Banking Group continued efforts to enhance our model of banking in support of local communities that is typical of the affiliated banks, while maintaining a keen focus on the needs of territory and on the satisfaction our customers and shareholders. Within this context, the Parent Company has, together with the affiliated banks, consolidated the process of evolving and enhancing the current service model and branch network with a view to transitioning towards a model based on high-quality relationships.

To this end, the following primary areas of development have been targeted:

- an offering based on high-value advisory services that call for experts with strong specialist and relationship skills dedicated to individual customers (affluent, wealth, and private banking, with an emphasis on insurance services) and business customers (including SME and corporate accounts);
- the development of the branch model by enhancing the automation of transaction services (including advanced ATMs, in-branch self-service kiosks, and "cash-light" branches) and through investment in remote-banking technologies;
- the dissemination of a customer-centric approach by listening to the needs of both customers and shareholders in order to manage current and future needs and establish lasting relationships that create value;
- community development with product/segment specializations, particularly aimed at businesses, for whom dedicated offerings have been defined, including by strategically repositioning the ICBG as a key partner for SMEs;
- enhancing customer service capabilities through advanced customer-insight tools and models;
- the launch of a digital, multichannel strategy.

In order to support this evolution, and within the ICBG Transformation Plan, we have defined and launched the "Full Revenue Potential" program with the goal of monitoring strategic projects that have a significant impact on the Group's commercial performance.

The main projects are described below, along with information on progress made:

- Customer Relationship Management (CRM), the project aimed at developing the ICBG's integrated system of customer relationship management (CRM) with the goal of ensuring greater effectiveness in analysis by making use of a single digital platform available to affiliated banks and to the Parent Company, activating a marketing automation engine to guide multichannel and multi-step campaigns that focus on the customer, and introducing and monitoring the product sales process from a single point, thereby enabling a multichannel process at the Group level. Testing is under way with the pilot banks, and we will begin gradually activating all affiliated banks, beginning with the pilot group, in September this year;

- Full Commercial Potential – Retail, a project aimed at developing and specializing the branch model of the mutual banks by, in part, enhancing and further developing the catalogue of products and services (particularly in the business areas of asset management, insurance, bancassurance, consumer credit and electronic money aimed at businesses, and at SMEs in particular). The project intends to contribute to realizing the full commercial potential of the Group in line with the financial trends envisaged within the established strategic guidelines. Despite the limitations brought about by the COVID-19 pandemic, we have carried out a pilot project with a number of mutual banks that produced encouraging results in terms of adding value to consulting services for customers;
- the Intour project based on the establishment of quality partnerships to create an advanced platform of services for the tourism industry that integrates an innovating offering of financing, payment systems, and insurance (i.e. fintech and insurtech), which will make it possible to reduce the industry's dependence on intermediaries (e.g. OTAs), promote local consumption, and shorten the distance between business and banking. In the first half of 2020, we acquired a minority interest in H Benchmark S.r.l. with the goal of acting as an "accelerator" of the Group's activities in the tourism segment. Using this web-based platform, it is possible to acquire, aggregate and run comparative analyses of a rich series of performance indicators for a hotel in order to facilitate the loan-origination process;
- the Wealth Management (WM) project, which seeks to develop the advisory models and the role of the dedicated competency center within the Parent Company in order to ensure the quality of the offering and management of investment, funding, life insurance, and other wealth management products. The WM platform, the new front-end application available to assist mutual banks in their consulting efforts, will be gradually released in the fourth quarter of 2020. In this regard, the Group's asset management company, BCC Risparmio & Previdenza, has entered into a partnership with BlackRock aimed at benefiting from the technological know-how of this US-based asset manager;
- with regard to the asset management segment, the continuation of efforts to reposition BCC Risparmio & Previdenza in terms of its business model. More specifically, the company's role as the Group's investment center has been strengthened by transitioning from a pure product model to a meta-product model, including broadening its range of action – beyond mere internal production – by enhancing activities related to the wrapping of third-party enterprise capabilities and, more generally, focusing on the generation of more technological investment solutions (e.g. development of the aforementioned WM platform);
- the bancassurance projects and reorganization of the Group's electronic money segment, as mentioned above;
- in the area of consumer finance, and specifically as concerns salary and pension-backed lending and post-employment benefits, the evaluation of potential strategic partnerships with leading industry players in order to develop this specific business, including in light of the expected start of more favorable methods of weighting exposures as introduced by CRR2 and defined by Regulation (EU) 2020/873.

The first half of 2020 saw the implementation or launch of a series of important initiatives with a view to the creation of value and of image for the growth of the Group, of the mutual banks, and of the product companies, which concerned various areas and targets. This included:

- Restart package;
- Project Ecobonus;
- CartaBCC loyalty card;
- *Tutela Reddito* (Protect Earnings) campaign;
- Mpay POS campaign;
- StudioSì campaign;
- Digital marketing projects such as the Digital Maturity Framework and web and social-media monitoring;
- Development of civil society.

Restart package

Some of the main projects within this package are those that aim to extend the use of electronic money, including through government incentives for 2020 to promote electronic payments. In this regard, we have launched the first joint campaigns with Cattolica within the aforementioned framework agreement between Iccrea Banca and the parent company of the Cattolica group. Of particular note are the initiatives dedicated to the product *Tutela Reddito* (Protect Income) and the initiative #*INSIEMESIVINCE* (#TOGETHERWEWIN). The restart package also includes initiatives for the customers and shareholders of the mutual banks to support the placement of BlackRock funds through the aforementioned agreement, as well as individual investment and incremental trading accounts. Many commercial initiatives in recent months have been conducted making use of the Group's CRM, although not to its full potential.

Project Eco-sisma bonus

With regard to developments related to the environmental and earthquake bonuses (*Eco-* and *Sisma Bonus*) governed by Italy's Relaunch Decree, specific projects and initiatives have been launched in order to better support the mutual banks and their customers in taking advantage of these important opportunities. In this regard, agreements have been signed with strategic partners such as Enigaseluce and Harley Dickinson. The mutual banks have also been provided specific products and informational and training meetings have been held with the mutual banks and with the businesses and customers concerned.

CartaBCC loyalty card

Launched in May 2020, *Premiati Revolution* loyalty program was launched in order to increase spending on the credit cards already in the customer portfolio and to promote the placement of new cards.

StudioSì campaign

The Iccrea Cooperative Banking Group has been selected by the European Investment Bank (EIB) to be an intermediary for the management of the student loan fund financed with 2014-2020 NOP resources assigned by Italy's Ministry of Education and Research in order to support students in southern Italy. The fund is designed for all those looking to pursue undergraduate or post-graduate degrees or specializations at any university. Through the mutual banks, the ICBG will be able to disburse €43.5 million to finance – without any cost – both tuition and accommodations.

In order to inform students of this opportunity, which, in such a complicated year for employment, serves as a sort of social safety valve, a promotional campaign has been designed and was launched on September 1 of this year. Given that it targets students and their families, the campaign is running primarily on mobile devices and online with the help of influencers who are able to attract the attention of young people, as well as on specialized sites such as Skuola.net and on innovative social media platforms like TikTok.

Development of the civil society segment saw the release of specific products such as current accounts (5) and loans (2) under the *Coopera* brand. The *Coopera* website has also been created and maintained to present the philanthropic initiatives carried out by the mutual banks in response to the health emergency.

The Digital Maturity Framework project has defined the current level of maturity of the business and identified the areas for development in order to further optimize the management and output of digital marketing efforts. Mapping will make it possible to achieve the following objectives: to manage the online marketing funnel in order to ensure a consistent brand experience (i.e. Group and bank branch info, product offering, online and social-media channels); to support marketing campaigns with an investment plan based on actual potential and on online and offline traffic; and to gather data and knowledge in order to optimize the campaigns for customer targets that present high potential for conversion.

In 2020, the web and social-media monitoring project that began in previous years has focused on monitoring the impact of the Group's activities in the digital mediascape. On social media, we have also structured the monitoring of the main performance indicators of the social media channels of the Group and of the mutual banks, thereby creating a knowledge base that can be used to improve the use of social media in the marketing and communication efforts of the affiliated banks.

Revision of the territory coverage of the Affiliated Banks

In the first half of 2020, the Parent Company continued work to revise the territory coverage of the affiliated banks and, in particular, to rationalize this coverage through the grouping of banks in order to consolidate the coverage of mutual banks throughout the territory and develop the sort of capital solidity and efficiency that will enable the new entities to operate more effectively within the community.

During the first half of the year, the following mergers were undertaken:

- BCC Trevigiano and BCC Brendola, approved by the Board of Directors of the Parent Company on March 13, 2020, authorized by the ECB on March 16, 2020, and effective as of October 1, 2020;
- BCC Toniolo San Cataldo, BCC Resuttano, BCC Mussomeli and BCC S. Biagio Platani[12], approved by the Board of Directors of the Parent Company on April 23, 2020 and authorized by the ECB on July 28 2020, effective as of October 1, 2020.

In July and August 2020, the following additional mergers were also approved by the Board of Directors of the Parent Company:

[12] The mutual bank was put under temporary receivership, for violations of anti-money laundering legislation, on April 1, 2019. The temporary receivership was extended by the competent authority until September 30, 2020 in order to enable the extraordinary administrators to fully implement the corrective measures identified, as well as in relation to the business combination concerned.

- BCC San Giorgio Quindo Valle Agno and Banca di Verona Cadidavid, approved by the Board of Directors of the Parent Company on August 7, 2020 (request submitted to the ECB on August 10, 2020);
- BCC Vibonese, BCC Cittanova, BCC Crotonese and BCC Catanzaresa, approved by the Board of Directors of the Parent Company on July 24, 2020 (request submitted to the ECB on August 4, 2020). This operation, like the one below, is also aimed at providing the new entity with the more robust organization, operations and capital needed for more effective development, which will allow for greater value creation in coverage of the territory in accordance with the principles of sound and prudent management;
- BCC Valdichiana and BCC Tema, approved by the Board of Directors of the Parent Company on August 7, 2020 (request submitted to the ECB on August 10, 2020).

These operations are expected to go into effect by the first quarter of 2021.

Participation in the T-LTRO

In March, in light of the new landscape brought about by the pandemic and of the timely activation of the major monetary-policy measures described above, aimed at providing the needed support in providing households, businesses and banks with liquidity and at helping to maintain the regular provision of credit to the real economy, the Board of Directors of the Parent Company approved a revision to the Group's financial strategy, particularly with regard to the maximum level of exposure in Italian government securities at both the separate and the consolidated levels. In particular, given the actions of monetary policy described above, an increase of about €13 billion in additional liquidity was approved beyond the previous €17 billion in T-LTRO IIi prior to the monetary-policy maneuver, bringing the new T-LTRO III limit to about €30 billion in collateralized funding. At the same time, Italian government securities were purchased with maturities of no greater than that of the T-LTRO III auctions.

New policy references for trading within the HTC portfolio

In the first quarter, in response to the shifting macroeconomic landscape with the spread of the COVID-19 health emergency and the consequent support measures of the ECB, the Parent Company approved, along with an increase in exposure to Italian sovereign risk in order to allow for access to more expansionary monetary-policy measures in response to the emergency, also a strengthening of mechanisms and controls in full compliance with IFRS 9 with regard to the hold-to-collect (HTC) business model.

In this regard, we have amended the annex to the Group policy "Accounting Policy IFRS 9 Classification & Measurement – levels of significance of sales recognized for the hold-to-collect business model", which defines the authorization levels and thresholds for the sale of financial instruments in relation to sales allowed under IFRS 9 for the HTC business model. More specifically, the main changes made, in line with the Group's market-risk policy, concerned a revision to the authorization processes for the various cases of sales of financial assets allocated under the HTC business model, as well as a revision to the materiality threshold of "sales for other reasons", which has been reduced from 15% to 10%.

Early Warning System (EWS)

In January 2020, taking account of the requests received through discussions with the supervisory authority concerning aspects of governance and process of the EWS framework, a number of improvements and related developments were implemented. These changes fall within the scope of an ordinary process of development and enhancement of the overall early warning system, which takes account of the input and expectations of the supervisor and other elements aimed at the further integration of the EWS within the Group's risk governance processes.

With regard to implementation of the EWS framework, work was done in the first half of 2020 aimed at implementing the system, and related periodic (ongoing) monitoring of the risk profile and (quarterly) reporting has begun. The outcome of these activities show an overall situation of widespread financial, capital and operational equilibrium within the affiliated banks, although there are certain cases of affiliated banks that present limited, not severe imbalances in specific segments of operations. For these affiliated banks, the Parent Company has activated the governance mechanisms envisaged within the Cohesion Contract, which have led to the launch and execution by the banks concerned of equilibrium-restoration and de-risking efforts in specific segments of operations. Upon completion of the process of classifying their technical standing at December 2019, the classified mutual banks were, in a controlled and coordinated manner, subject to specific directives and guidance in which remediation plans and actions, as well as the objectives to be reached in 2020 to improve their respective risk profiles, were defined. During the first half of the year, the progress made in relation to these initiatives was monitored with the goal of improving the technical standing of these banks.

For more information on the key aspects of ICBG's overall EWS, see Part E of the explanatory notes.

Refinement of the impairment model and the COVID-19 add-on

The implications of the COVID-19 emergency have called for a series of actions to supplement and adapt the measurement framework and management of credit risk for the Group aimed both at the constant monitoring of risk drivers and other information related to lending within the context of COVID and at revising the risk-forecasting metrics in consideration of the evolving economic scenarios.

As the reader will be aware, the pandemic has radically altered the economic and financial forecasts for Italy and for the euro area, resulting in expectations for an economic contraction the repercussions of which will extend over time and the negative impact of which is difficult to estimate. According to forecasts released by the Bank of Italy in July, Italy's GDP is expected to decrease by 9.5% in 2020[13] given the contraction in industrial production following implementation of measures to limit infection and the reduced propensity for businesses to make new investments. On the consumer side, too, we have seen a great deal of caution due to expectations of a worsening in financial position and consequent reduction in consumption. Nonetheless, these same scenarios also point to a rapid recovery in sales beginning in the second half of 2020 and for growth in Italian GDP for 2021 and 2022, although remaining slower than the growth forecast prior to the health emergency.

In light of these new factors, right from the first signs of the COVID-19 emergency, the Group launched a series of actions aimed at estimating and anticipating, for the 2020 half-year report, the expected worsening of the economic landscape in the levels of provisioning for the ICBG loan portfolio, including the definition of ad-hoc forecasting models, with the goal of: (a) estimating, with an unavoidable degree of approximation, the cost of credit, for both performing and non-performing exposures, that the pandemic could bring about in this initial phase, in accordance with the recommendations of regulatory and financial-reporting authorities; and (b) reinforcing the measurement processes envisaged by prevailing internal regulations in a codified, standardized manner.

The results of this series of actions and their application in the financial reporting for June can be seen both in the adaptation of the IFRS 9 impairment model used to calculate adjustments to the value of performing loans and in the creation of a specific conditioning model for the non-performing portfolio in response to COVID-19, which has been used for the 2020 half-year report to calculate and include an impairment add-on to the one generated by the process envisaged under prevailing internal rules drafted prior to the COVID-19 emergency.

Updates and adaptations of the IFRS 9 impairment framework under COVID-19

Of particular note within the scope of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency are the actions to revise the credit-risk forecasting metrics to factor in the new aspects of analysis related to this new landscape within the scope of ordinary measurement processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

The factors of great discontinuity related to the market conditions brought about by the effects of COVID-19, although within the resulting framework of extraordinary uncertainty, particularly in terms of forecasting, have called for a series of extraordinary changes in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model. This was done with specific reference to incorporation in the risk measures for forecasting the main financial and macroeconomic variables contained in the new economic scenarios prepared by recognized external providers and/or by government and supervisory authorities. The medium-term scenarios developed after the rise of the health emergency include the marked worsening of the economy in 2020, followed by a recovery beginning in 2021.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative decrees in Italy[14], to actions agreed upon with the industry associations (i.e. the ABI moratoriums for businesses and consumers), and to initiatives implemented by individual organizations has led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the mitigating effects when calculating expected credit loss.

More specifically, the adaptations to the impairment model related to COVID-19 that had an impact on the calculation of expected credit loss for the half-year period ended in June 2020 concerned:

- the use of the most up-to-date macroeconomic scenarios available at the time and of forward-looking forecasts based on data published by the Bank of Italy.[15] In particular, in order to adapt the IFRS 9 methodological framework to the pandemic, given the

[13] Bank of Italy, Proiezioni macroeconomiche per l'Italia, July 2020[14] Decree Law 18 of March 17, 2020 (the Cure Italy decree); Decree Law 23 of April 8, 2020 (the Liquidity Decree)[15] See "Proiezioni Macroeconomiche per l'economia italiana – Esercizio coordinato dell'Eurosistema", Bank of Italy, June 5, 2020.[16] EBA/GL/2020/02 of April 2, 2020, and EBA/GL/2020/08 of June 25, 2020, "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis".[17] The Regulation sets out a new regulatory frameowrk for the benchmark rates Euribor, Libor and EONIA, ensuring the compliance of market indices and the methods used to calculate them with international standards, seeking to ensure the integrity of the benchmarks used in the euro area (including benchmark interest rates), reduce the use of discretionality, improve governance controls and address conflicts of interest.

[14] Decree Law 18 of March 17, 2020 (the Cure Italy decree); Decree Law 23 of April 8, 2020 (the Liquidity Decree)[15] See "Proiezioni Macroeconomiche per l'economia italiana – Esercizio coordinato dell'Eurosistema", Bank of Italy, June 5, 2020.[16] EBA/GL/2020/02 of April 2, 2020, and EBA/GL/2020/08 of June 25, 2020, "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis".[17] The Regulation sets out a new regulatory frameowrk for the benchmark rates Euribor, Libor and EONIA, ensuring the compliance of market indices and the methods used to calculate them with international standards, seeking to ensure the integrity of the benchmarks used in the euro area (including benchmark interest rates), reduce the use of discretionality, improve governance controls and address conflicts of interest.

[15] See "Proiezioni Macroeconomiche per l'economia italiana – Esercizio coordinato dell'Eurosistema", Bank of Italy, June 5, 2020.[16] EBA/GL/2020/02 of April 2, 2020, and EBA/GL/2020/08 of June 25, 2020, "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis".[17] The Regulation sets out a new regulatory frameowrk for the benchmark rates Euribor, Libor and EONIA, ensuring the compliance of market indices and the methods used to calculate them with international standards, seeking to ensure the integrity of the benchmarks used in the euro area (including benchmark interest rates), reduce the use of discretionality, improve governance controls and address conflicts of interest.

difficulties in modeling the particular characteristics using ordinary satellite models, we have used implicit coefficients provided by the external provider based on the scenario forecasts of the Bank of Italy by geographical area and industry segment;

- the inclusion of the impact of implementation of the aforementioned measures to support customers, and the moratoriums and actions to support business liquidity in particular. Specifically, within the scope of the IFRS 9 impairment framework, and consistent with the guidelines of the European Banking Authority,[16] the moratoriums have been considered solely and specifically for those exposures impacted by these measures, thereby inhibiting the application of qualitative criteria (loans 30 days past due) and quantitative criteria (increase in PD) to measure the significant increase in credit risk (SICR) so as to avoid a potential slide into stage 2. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

It should be noted that these extraordinary changes to the IFRS 9 impairment framework in response to COVID-19 have been made in concert with the ordinary maintenance of the risk models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL under IFRS 9, in line with applicable financial reporting standards. These updates made it possible to arrive at a version of the models and at measurements of the related parameters that are more stable and more accurate at measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole. The fine-tuning and updating of the parameters used to calculate ECL prior to COVID would have given declining coverage levels compared with previous measurements due to the greater adherence of the new calculation of the risk parameters in relation to the actual historical trend in the Group's loan portfolio. Therefore, the efforts to increase the efficiency of the framework for calculating ECL partially offset the impact of increased adjustments due to COVID-19.

The conditioning model used to determine the COVID add-on for non-performing loans

The conditioning model for the NPL portfolio in relation to the COVID-19 scenario has been developed based on an overall what-if framework and scenario analysis applied to these exposures and developed for all lending, within the scope of which the updates in relation to IFRS 9 impairment (ECL) for the Group's performing portfolio have been fully and consistently applied, as previously described.

Definition of the model made it possible to calculate specific coefficients representing the forecasts of lower recovery related to the COVID-19 scenario by homogeneous exposure types (defined at the level of administrative status of the deteriorated loans, type of borrower, and any supporting guarantees) and applied to the measurements of impaired exposures conducted according to the criteria set by prevailing policies.

Application of these coefficients made it possible to factor in additional, prudential reductions in recovery under the new market landscape within the measurement process, which resulted in the inclusion of an add-on for the 2020 half-year report on top of the one normally generated under the ordinary measurement process.

In line with the approaches adopted for the updates tot IFRS 9 impairment (ECL) for the Group's performing loans portfolio, the conditioning models for the levels of coverage of the impaired portfolio are based on two elements of analysis, the combination of which makes it possible to calculate the potential impact of COVID-19 on NPL measurements and on the corresponding coverage levels. More specifically, these elements concerned:

- the conditioning of recovery percentages based on the identified relationship between a set of exogenous forecasting variables in the new macroeconomic scenarios that are, therefore, able to define future recovery levels that reflect the effects of the COVID-19 emergency, thereby raising coverage levels in light of these scenarios;
- the conditioning of the transition of exposures between the various impaired states (i.e. past due, unlikely to pay, and bad loans) – the danger rate or NPE matrices – so as to define the probability of "stressed" migrations following inclusion of the effects of the pandemic.

The output obtained is a calculation of specific coefficients by impaired status, type of borrower, and any supporting guarantees, which thereby represent lower expected future recovery percentages under the pandemic scenario. These have been applied to the analytical measurements of impaired exposures carried out according to the criteria envisaged under prevailing policies.

Generally speaking, application of these coefficients has, during this period of discontinuity, made it possible to adopt a more prudent, structured and forward-looking approach, within the ordinary measurement process, when factoring in the potential effects of the new scenario on expected recoveries, on the assumption that these effects may not yet be entirely incorporated in the current forecasts due to unexpected changes in the market conditions related to COVID-19.

[16] EBA/GL/2020/02 of April 2, 2020, and EBA/GL/2020/08 of June 25, 2020, "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis".[17] The Regulation sets out a new regulatory frameowrk for the benchmark rates Euribor, Libor and EONIA, ensuring the compliance of market indices and the methods used to calculate them with international standards, seeking to ensure the integrity of the benchmarks used in the euro area (including benchmark interest rates), reduce the use of discretionality, improve governance controls and address conflicts of interest.

Relations with Cattolica

Following the renewal, until December 31, 2022, of the bancassurance partnership between Iccrea Banca and Cattolica Assicurazioni agreed upon in July 2019, the insurance joint ventures (i.e. BCC Vita and BCC Assicurazioni, in each of which Iccrea Banca holds a 30% interest and Cattolica Assicurazioni holds a 70% interest) posted performance for the second half of 2019 and the first half of 2020 in line with expectations, while maintaining capital ratios well above regulatory minimums.

Nonetheless, during the first four months of 2020, with the spread of the effects of the health crisis and the heightening of tension and volatility on the financial markets, we have seen a deterioration in the capital ratios of all insurance-industry players, including BCC Vita. To this end, on June 22, in execution of the plan to strengthen capital as approved by BCC Vita, the shareholders executed capital contributions, proportionate to the number of shares held, totaling €50 million (with €15 million being paid in by Iccrea Banca and €35 million by Cattolica Assicurazioni). In July, there was another €50 million round of strengthening of BCC Vita's capital position, again proportionate to the number of shares held, €25 million of which (€7.5 million by Iccrea Banca) by another capital contribution and €25 million (€7.5 million by Iccrea Banca) by way of a bond with the characteristics needed to be included as tier-2 capital under Solvency II, which was issued on August 5.

Guarantee Scheme

During the first half of the year, the Parent Company completed the adjustment of the funds underlying the operation of the Guarantee Scheme, known as the readily available funds (RAFs). The RAFs are represented by an Ex Ante Quota established at the Parent Company and an Ex Post Quota that can be called up by the Parent Company in case of need.

In order to quantify the overall amount of readily available resources, the Cohesion Contract provides for the Parent Company to conduct exercises to quantify those resources in an adverse scenario as well.

For 2020, the calculations showed RAFs of €1,182.6 million, broken down as follows:

- an Ex Ante Quota of €385.4 million (€318.4 million pertaining to the affiliated banks and €67 million to the Parent Company), compared with the €504.5 million estimated for 2019;
- an Ex Post Quota of €797.2 million (€658.6 million pertaining to the affiliated banks and €138.6 million to the Parent Company), compared with the €835.1 million estimated for 2019.

Each bank and the Parent Company adjusted its Ex Ante and Ex Post Quota for 2020 up or down as appropriate. More specifically, the annual updating of the Ex Ante Quota, which was completed in January 2020, was performed for the mutual banks through the adjustment of the loan for a specific transaction pursuant to Article 2447 bis, letter b) and Article 2447-decies of the Italian Civil Code.

The Parent Company invests the Ex Ante funds in liquid and enforceable assets in compliance with the limits and requirements set out in the Investment Policy approved by the Board of Directors of Iccrea Banca. The financial resources that make up the Ex Ante Quota of the RFAs are invested in a sufficiently diversified portfolio of liquid low-risk instruments in order to pursue the objective of capital conservation and ensure the ready availability of the financial resources needed to implement guarantee interventions. The funds are therefore invested only in debt instruments that have a yield to maturity at least equal to the interest rate on the deposit facility of the European Central Bank and are included in the following "investable universe": euro-area government securities, supranational issues, covered bonds, ABSs and deposits with the Eurosystem and derivative financial instruments used solely for hedging purposes connected with the exercise of the fair value option.

More specifically, assets included about €3.7 million in cash and cash equivalents, held at both the central bank (€1.5 million) and Euroclear (€2.1 million), and about €404.3 million in securities (of which about €20.9 million in securities subscribed as part of support operations undertaken in 2019).

Assets	30/06/2020
10. Cash and cash equivalents	1,535,870
20. Financial assets measured at fair value through profit or loss	404,306,198
b) financial assets designated as at fair value	*404,306,198*
40. Financial assets measured at amortized cost	2,133,555
a) due from banks	*2,133,555*
Total assets	**407,975,623**

he composition of the investment portfolio respects the principles of the diversification of risk and of liquidity based on the guidelines established in the policies approved by the Iccrea Banca Board of Directors. The following table shows the breakdown, by issuing country and/or type of instrument, of the debt securities that make up the portfolio, measured at fair value in line with applicable accounting standards.

Country/Type of instrument	30/06/2020
Austria	1,156,539
Belgium	10,959,505
Finland	1,393,130
France	45,466,213
Germany	36,571,405
Ireland	7,999,338
Italy	107,544,221
Netherlands	2,330,274
Supranational	35,567,215
Spain	102,867,977
Covered bonds	31,566,278
Subordinated bonds subscribed within the scope of initiatives undertaken in 2019	20,884,103
Total	**404,306,198**

Liabilities are largely financial liabilities measured at fair value and related to the value of the Ex Ante Quotas attributable to the affiliated banks (€337 million), adjusted taking account of the results of management of the special-purpose financing at June 30, 2020. Other liabilities refer to the Ex Ante Quota attributable to the Parent Company (about €70 million), which is also adjusted based on the proportional allocation of the income generated by the liquidity at June 30, 2020.

Liabilities	30/06/2020
30. Financial liabilities designated as at fair value	337,104,417
80. Other liabilities	70,871,206
Total liabilities	**407,975,623**

The report for the year shows a loss of about €388 thousand, which contributes to the consolidated result of the Group. Based on the contracts signed, this loss has been allocated to the participants in the Guarantee Scheme based on their respective shares.

	30/06/2020
10. Interest income and similar revenues	1,553,902
20. Interest expense and similar charges	(105,859)
30. Net interest income	**1,448,043**
50. Fee and commission expense	(18,400)
60. Net fee and commission expense	**(18,400)**
110.a Net gain/(loss) on other financial assets and liabilities measured at fair value	(1,817,974)
of which gain loss on debt securities	*1,199*
of which minus/plus on debt securities	*(1,819,172)*
Overall result of Guarantee Scheme	**(388,331)**
110.a Net gain/(loss) on other financial assets and liabilities measured at fair value allocated to the affiliated banks	326,905
210. Other operating expense/income – of which Ex Ante Quota pertaining to the Parent Company	61,425
300. Profit/loss for the period	**0**

During the first half of 2020, no capital support operations funded by the affiliated banks were carried out.

Capitalization operations carried out in 2019 (in the nominal amount of €23 million) and allocated on a pro-rated basis to each mutual bank were measured in accordance with the fair value policy of the Parent Company, with the consequent updating of the value of the shares allocated.

THE EVOLUTION OF THE REGULATORY AND OPERATIONAL ENVIRONMENT AND ASSOCIATED PROJECTS

The following section discusses the evolution of the regulatory and operational environment and, where applicable, any associated organizational and procedural updating undertaken.

Product governance

The Group has developed a single operating model for the management of products and services with the aim of ensuring their uniformity, while creating synergies that also take account of local conditions. From January 1, 2020, the application of the Product Management model was also extended to the affiliated banks in relation to the entry into force of transparency regulations in this area. Activities focused, among other things, on the creation of IT support tools with the aim of guaranteeing both greater coordination of the product management process and the supervision of the Group's entire commercial product range (the Product Catalog) in compliance with regulatory obligations concerning the governance of banking products.

Insurance distribution

With a joint communication of March 17, 2020, the Bank of Italy and IVASS called on banking, financial and insurance intermediaries to exercise particular caution in offering of non-financial products in combination with a loan. The admonition is directed at ensuring compliance with the applicable legislation and preserving the integrity of the fiduciary relationship with customers through conduct suitable for promoting customer awareness of the characteristics, obligations and advantages deriving from the combination of the products on offer. To this end, intermediaries were invited to instruct their Compliance and Internal Audit functions to perform specific checks of the policies used to offer products and of the methods for placing combined products, with a view to ascertaining the level of compliance of their practices with the applicable legislation, the appropriateness of internal processes and rules and the exposure to risks deriving from disputes with customers and the action of other competent authorities. In light of this communication, BCC Retail S.c.a.r.l. launched a project to provide the affiliated banks and companies within the direct scope of consolidation that are engaged in the distribution of insurance products with uniform guidance on the methods to be adopted in offering policies combined with loans.

With a subsequent communication of June 8, 2020, taking account of the continuation of the health emergency at the national level, the Bank of Italy and IVASS extended the deadline for the examination of the results of the checks by the management and control bodies, initially set at September 30, 2020, to December 31, 2020. In the event of significant deficiencies, companies are required to submit to those authorities a report on the analysis conducted, the remedial plan and the minutes of the company bodies.

With regard to the COVID emergency, IVASS has adopted specific measures to support the activities of insurance companies and intermediaries and to protect the consumer.

In particular, in March 2020, taking account of the effective operational difficulties faced by companies, the insurance regulator suspended the obligation to perform the certification tests associated with professional training courses exclusively in the classroom, allowing them to be carried out remotely, and extended the deadline for all entities required to manage complaints to respond to customer complaints within 75 days, instead of the ordinary 45 days provided for in applicable regulations.

Furthermore, on April 3, 2020, taking account of the limits and restrictions imposed by the COVID emergency and the impact of the measures adopted by the Government to contain the outbreak on the performance of production and commercial activities and on the mobility of people around the country, IVASS alerted sector companies to the need to "*take steps, in relation to the commitments undertaken and compatibly with the emergency situation, to organize themselves as effectively as possible to ensure the continuity of services and the greatest protection of users. From the perspective of business continuity, among other things, extensive use of electronic mail and other remote communication systems for sending notices to customers would be desirable, reserving the use of the postal service - whose operations have been significantly reduced as a consequence of the health emergency - to cases where this is strictly essential*".

In a subsequent notice of June 30, 2020, IVASS ordered the restoration of the ordinary deadlines envisaged for the management of complaints starting from July 1, 2020 and also specified that, as the critical conditions affecting the use of the postal service by virtue of which the use of e-mail and other electronic means of communication had been recommended no longer obtain, sector companies are in any case invited to ensure the quality of services, allowing users to choose between the communication methods that they consider most suited to their interests.

Finally, Article 33 of the Decree Law 34 of May 19, 2020 (the "Revival Decree"), ratified with amendments by Law 77 of July 17, 2020, allows, for the duration of the state of emergency, the subscription in simplified form of insurance contracts concluded remotely.

PSD2 - Payment Services Directive

Within the scope of the activity under way since 2018 to achieve organizational and procedural compliance with PSD2, a variety of planning was done, first and foremost, to complete the various steps envisaged by the new legislation.

In this area, the following activities have continued as planned:

- the reporting of the risk analysis, the deadline for which has been extended by the competent authority to September 2020;
- the upgrading of the e-commerce sector for online purchases with cards, on both the issuing and acquiring ends;
- work to complete the new exemption procedure (the "fall-back solution") for banks migrating after September 14, 2019, in line with the operating procedures defined with the Bank of Italy (the deadline for the submission of exemption applications for banks migrating before May 31, 2020 is July 31, 2020).

The innovations introduced by PSD2 have already led to significant changes in the European banking market and in the electronic payments market, opening up new business opportunities. The goal of the planning now being done is therefore, to not just ensure that the Group as a whole complies with the regulatory obligations, but also to lay the groundwork for a new strategic evolution of the Group, identifying business opportunities in terms of offering innovative open-banking products and improving processes, starting with the marketing and commercial areas and working towards credit processes, while leveraging the information available.

SEPA Instant Payments

Within the context of the radical evolution underway in the area of payment services, the European Payments Council (EPC) established guidelines for the first pan-European instant payments scheme (SCT Inst). Under the umbrella of SEPA Instant Credit Transfers, Instant Payment is a service that is key for the Group banks' digital offerings, enabling them to provide private customers and firms the opportunity to make and receive real-time transfers with counterparties located throughout the SEPA area whose service is active, through both digital and physical channels (operating 24/7, receipt within 10 seconds). Instant payments will represent a leap forward in the quality of payment systems and will help businesses and institutions rationalize digital-migration processes. Pilot operations at Banca Sviluppo and Iccrea Banca began on March 3, 2020 (with the receipt of credit transfers on current accounts and transmission features reserved for a limited number of users).

Since May 2020, in accordance with the participation timeline published by the EPC (European Payments Council), the service is being extended to all mutual banks operating with the BCC SI information system (to date, 36 have already begun).

Benchmarks Regulation (BMR)

On the basis of the new regulatory framework delineated with Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the "Benchmarks Regulation", or BMR),[17] the European Money Market Institute - EMMI – the administrator of the Euribor and EONIA indices, concluded that none of the benchmarks it administers was compliant with the new rules governing benchmark rates. Consequently, it was decided to:

- move ahead with the progressive replacement of the EONIA rate with another overnight benchmark published by the ECB (€STR);
- modify the methodology used to calculate Euribor rates by adopting a hybrid approach that combines transaction data with expert judgement.

On July 2, 2019, the Financial Services and Markets Authority (FSMA), the authority responsible for supervising EMMI, announced that it had completed its assessment of the adjustments made to governance and methodology underlying the calculation of Euribor, finding them compliant with the provisions of the BMR and therefore authorized EMMI to continue its administration of the index in full compliance with the aforementioned regulatory provisions, thereby certifying conformity.

As part of this regulatory and market framework, in July 2019 the ECB sent a communication to banks to obtain information on the actions taken and under way to tackle the global interest rate reform, to which Iccrea Banca replied for the Iccrea Cooperative Banking Group with a quantitative assessment, expressed in terms of the exposure to the various IBORs (EONIA, Euribor and Libor), and a qualitative assessment of the impacts on specific issues.

Following this preliminary analysis, the Parent Company launched a detailed assessment phase in January 2020 that is now being completed. It is intended to:

- identify the scope of intervention necessary to adapt to the new regulations, with particular reference to the IBOR rates (i.e. EONIA, Euribor and Libor) in the Product & Strategy, Legal & Documentation, Risk & Analytics and Finance & Accounting areas;

[17] The Regulation sets out a new regulatory frameowrk for the benchmark rates Euribor, Libor and EONIA, ensuring the compliance of market indices and the methods used to calculate them with international standards, seeking to ensure the integrity of the benchmarks used in the euro area (including benchmark interest rates), reduce the use of discretionality, improve governance controls and address conflicts of interest.

- define a masterplan of measures needed to manage the transition, to be implemented by December 2020.

In the Finance area, the expected impact of the benchmark rate reform on the Bank mainly concerns transactions in OTC derivatives in euros subject to netting, which are carried out for hedge accounting purposes and can be summarized as follows:

- the definition and modification of valuation models for derivatives and hedged items;
- any additional ineffectiveness resulting from those changes;
- any hedging relationships to be discontinued due to test failure;
- modification of the measurement procedures.

OTC derivative transactions are managed centrally by the Parent Company at the service of the affiliated banks. As a consequence, the planning activities for this issue are performed directly by the Parent Company and primarily focused on the measures necessary to adapt the front to back process for OTC derivatives operations, with particular reference to the adjustment of the valuation framework, the management of collateral, the modification of agreements with counterparties, the management of hedging operations and netting accounting.

In this context, the following main interventions are under way:

- review of the valuation framework, building a new discounting curve based on the €STR rate in place of EONIA;
- any recalibration of existing hedges;
- collateral management which, in addition to implementing the mark-to-market defined on the basis of the new valuation framework, must be remunerated at the new €STR rate;
- revision of contracts with counterparties.

Exposures and conflicts of interest with connected parties

With the 33rd update of Bank of Italy Circular no. 285/2013 "Supervisory Regulations for Banks", issued on June 23, 2020, Chapter 11 "Exposures and conflicts of interest with connected parties" was introduced in Part III, containing rules governing exposures and conflicts of interest of banks and banking groups with connected parties, previously included in Circular no. 263/2006, updated to comply with the new regulatory framework (amendments to the Consolidated Banking Act and CRR) and to exclude, under certain conditions, equity investments in insurance companies from the application of prudential limits.

The Parent Company has begun work to support the Group's compliance with the new provisions.

Credit

On January 14, 2020, the Bank of Italy issued its supervisory guidance on early repayment of credit by consumers, with the aim of facilitating the prompt alignment of domestic regulations with the interpretation of Article 16, paragraph 1, of Directive 2008/48/EC issued by the Court of Justice of the European Union in the context of its ruling of 11/09/2019 in the "Lexitor" case.

The Parent Company immediately formed an interdepartmental working group that, working in cooperation with the technical units responsible for the IT system, defined and released the operational indications and the new contractual clauses to ensure compliance with the interpretative framework outlined in ruling mentioned above.

On March 1, 2020, Law 8 of February 28, 2020 containing urgent provisions regarding the extension of statutory deadlines, the organization of government entities and technological innovation entered force.

The following measures that were issued in response to the COVID emergency address issues related to credit, as discussed earlier:

- Decree Law 18 of March 3, 2020, which strengthens the intervention of the Guarantee Fund for SMEs and the Solidarity Fund for mortgages for the purchase of a primary residence, financial support measures for businesses and incentives for the assignment of impaired loans;
- Decree Law 23 of April 8, 2020 containing urgent measures regarding access to credit;
- Law 27 of April 24, 2020, which governs the Guarantee Fund for SMEs and the Solidarity Fund for mortgages for the purchase of a primary residence, as well as the methods for real estate foreclosures together with measures in support of the agricultural and fishing industries in response to the health emergency;
- Decree Law 34 of May 19, 2020, containing provisions concerning the GACS guarantee scheme, the SACE guarantee for insurance on trade receivables, aid in the form of guarantees and subsidized interest rates on loans to businesses, renegotiation of loans of local authorities, the transfer of tax credits to banks and financial intermediaries and discounts on prices charged, the possibility for agricultural enterprises to renegotiate loans and the possibility of granting loans to land reclamation consortia;

- Law 40 of June 5, 2020 containing provisions concerning temporary measures to support the liquidity of companies through a guarantee granted by SACE S.p.A. as well as provisions relating to the Guarantee Fund for mortgages for the purchase of a primary residence and the SME Guarantee Fund;
- “Nuova Sabatini”, a public subsidy which provides for the suspension of loan installments by businesses.

In particular, Article 4 of Decree Law 23 of April 4, 2020, ratified with amendments by Law 40 of June 5, 2020, as well as Articles 33 and 34 of Decree Law 34 of May 19, 2020, ratified with amendments by Law 77 of July 17, 2020, allow, for the duration of the state of emergency, the subscription in simplified form of banking, financial and insurance contracts concluded remotely.

Decree Law 51 of April 22, 2020 governing the obligations relating to the granting of advances on severance pay entered force on June 30, 2020.

In the broader context of the initiatives taken to manage the COVID emergency (see the specific discussion of these issues), in order to ensure unambiguous interpretation and guidance for all Group companies on the issues connected with the emergency, an interdepartmental "COVID-19 Emergency" task force has been established. It is responsible, among other things, for rapidly developing providing the affiliated banks and the companies within the direct scope with interpretations and operational recommendations to manage the support measures defined by the national government.

New definition of default

The Parent Company is coordinating project work for the implementation by the Group Companies of the new definition of default. The initiative was launched at the beginning of 2020 in order to assess and define the qualitative and quantitative impacts of the change, as well as to identify and implement the changes in applications and organization necessary to ensure their consistent, harmonized, comprehensive and effective adoption within the Group as a whole and within each of the entities that make up the Group. In parallel with the implementation of the changes in risk assessment models, work is also under way on implementation of the management solutions to comply with the requirements set out in the new rules in the context of strategies, processes and operational guidelines used to mitigate the overall risk profile of the Group.

EBA Guidelines on Loan Origination and Monitoring (LOM)

On May 29, 2020, the EBA published guidelines on loan origination and monitoring with a view to ensuring that standards for the credit risk taking, management and monitoring are robust and prudent and that newly originated loans are of high credit quality. The guidelines also aim to ensure the alignment of credit practices with consumer protection rules and anti-money-laundering requirements. The new guidelines will be applied progressively starting on June 30, 2021. More specifically, from that date, the guidelines will be fully applicable for newly originated relationships (loans and similar). For loans disbursed before June 30, 2021 and loans subject to renegotiation or contractual amendments, the compliance deadline is set at June 30, 2022. The end of the grace period for information and missing data on loans granted before June 30, 2021 is set for June 30, 2024. The same date is the deadline for implementation of the requirements for monitoring the stock of existing loans.

An assessment of the current structure of the lending process in the Group is under way Based on the new guidelines in order to assess the adequacy of the process.

The results of this assessment will form the basis for the activation of a remediation plan for areas that do not fully comply with the new requirements.

Calendar provisioning

Work is under way on the design and implementation of the strategies of the processes and credit solutions aimed at facilitating the management of credit exposures in light of the guidelines introduced by the regulations on prudential provisioning and the mitigation of the Group's overall risk profile.

Corporate law

With reference to issues concerning shares and equity investments, the following measures were issued in the first half of 2020:

- Consob Resolution no. 21304 on the reduction of the initial notification threshold pursuant to Article 120, paragraph 2-bis, of the Consolidated Law on Financial Intermediation (the “Consolidated Law”) for equity investments in listed companies with a high current market value and a particularly extensive shareholding structure;

- Decree Law 23 of April 8, 2020 containing provisions regarding the loss of share capital and shareholder loans granted in response to the health emergency, the obligation to notify specific resolutions, instruments or transactions and the associated veto power exercisable by the Government ("golden powers").

As regards corporate governance, the measures involved included:

- Decree Law 18 of March 17, 2020 containing provisions regarding the conduct of company meetings issued in response to the health emergency;
- Decree Law 23 of April 8, 2020 regarding the loss of share capital and shareholder loans grated in response to the health emergency;
- Law 40 of June 5, 2020 regarding the conduct of the shareholders' meetings of cooperative corporations issued in response to the health emergency. In this regard, the Parent Company issued guidelines for the affiliated banks concerning the new procedures for holding shareholders' meetings associated with the COVID health emergency;
- Legislative Decree 84 of July 14, 2020, in implementation of Article 7 of Law 117 of October 4, 2019 regarding the encouragement of long-term shareholder commitment and the rules of the corporate governance system;
- Consob Resolutions no. 21320 and no. 21359 regarding amendments to the regulation implementing Legislative Decree 58 of February 24, 1998 concerning the regulation of issuers in the matter of corporate transparency.

Sustainable finance

In the area of sustainable finance, on July 12, 2020, Regulation (EU) 852/2020 of the European Parliament and of the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 was approved. The regulation concerns pre-contractual disclosures and disclosures in periodic reports concerning sustainable investments, financial products that promote environmental characteristics and other financial products and transparency regarding eco-sustainability matters in non-financial reporting. The regulation will take effect from January 1, 2022.

Privacy

As part of the response to the COVID emergency, the Decree of the President of the Council of Ministers of April 26, 2020 was issued containing guidelines on the processing of personal data in cases of body temperature detection.

The decree contained amendments to the shared protocol for regulating measures to combat and contain the spread of the COVID-19 virus in the workplace", signed on March 14, 2020, which allowed the detection of body temperature, bearing in mind that this activity constituted the processing of personal data pursuant to the GDPR. Guidelines and clarifications regarding the detection of the body temperature of customers, suppliers, workers and visitors were issued on May 24, 2020 by the Iccrea Cooperative Banking Group in a specific operational circular, transmitted by the Legal and Corporate Affairs unit and Data Protection Officer (DPO) unit to the affiliated mutual banks and the companies within the direct scope of consolidation.

During the first half of 2020, the following consultations initiated by the European Data Protection Board ("EDPB") on the processing of personal data in the context of connected vehicles and the processing of personal data through video devices were also completed:

- "Guidelines 1/2020 on processing personal data in the context of connected vehicles and mobility related applications";
- "Guidelines 3/2019 on processing of personal data through video devices", adopted on January 29, 2020.

The EDPB guidelines on consent pursuant to Regulation (EU) 679/2016 (the "GDPR") are currently being drafted. The Guidelines 05/2020 on consent pursuant to Regulation 2016/679", adopted on May 4, 2020, represent a slightly updated version of the guidelines previously adopted by the "Article 29" Working Group on November 28, 2017 and amended on April 10, 2018. In particular, the innovations (clarifications) concern:

- the validity of the consent given by users in their interaction with so-called "cookie walls";
- the possibility (denied) of associating the act of scrolling through the pages of a website with the consent of users.

On May 12, the Privacy Authority provided a number of clarifications regarding the subjective qualification of the Supervisory Body (SB) provided for pursuant to Article 6 of Legislative Decree 231 of June 8, 2001. The authority ruled out the possibility that the SB can be construed as an independent controller or a processor pursuant to Article 28 of the GDPR within the scope of the exercise of its functions regarding the processing of personal data, specifying that the individual members of the SB must be designated by the controller - as part of the technical and organizational measures to be taken in line with the principle of accountability (Article 24 of the Regulation) - as authorized persons (Articles 4, 10, 29, and 32, paragraph 4 of the Regulation).

All the changes were promptly notified to the Territorial DPOs of the affiliated mutual banks and to the internal DPOs of the companies within the direct scope.

Bank of Italy regulation implementing the Mifid II/Mifir package

On January 4, 2020 the regulation implementing Articles 4-undecies and 6, paragraph 1, letters b) and c-bis) of the Consolidated Law, published in the Official Journal General Series no. 298 of December 20, 2019 entered force. This measure implements, at national level, the obligations introduced with Directive 2014/65/EU ("MiFID II"), Regulation (EU) no. 600/2014 ("MiFIR") and the respective delegated instruments with regard to the areas of corporate governance, control functions, outsourcing, business continuity, deposit and sub-deposit, and remuneration policies.

In particular, Part III of the measure, taking up the provisions of the Consolidated Law governs activities relating to the deposit and sub-deposit of customer assets and replaces, with some additions, the provisions on "deposit and sub-deposit of financial instruments and cash belonging to clients", previously governed by the joint Consob-Bank of Italy Regulation of October 29, 2007 and by Title V of the Bank of Italy Regulation of August 4, 2000.

The provisions apply to intermediaries that provide investment services and activities when:

- they receive customer assets (liquidity and financial instruments) on deposit;
- deposit (liquidity) or sub-deposit (financial instruments) the assets with third parties;
- are authorized to hold deposit accounts in the name of customers.

Specifically, Part III of the measure introduces the following main obligations:

- the preparation of adequate accounting, organizational, operational, contractual and IT safeguards to ensure the protection of customers who deposit assets;
- the designation of a sole manager, with adequate skills, for the protection of the financial instruments and liquid assets of customers;
- the separation of the intermediary's accounts and those in which customer assets are deposited or sub-deposited;
- the authorization by customers for the sub-deposit of financial instruments with central depositories or authorized depositories and for their possible use;
- a limitation of 20% on the deposit of liquid assets of customers with banks of the same group to which the intermediary belongs or for the investment in units of money market funds managed by asset management companies also belonging to the same group as the intermediary; this provision does not apply to banks. Verification of compliance with the limit and prompt notification of any overshoots to the Bank of Italy;
- the adequate selection and monitoring of the depositories and sub-depositories with which the intermediary decides to hold customers' financial instruments;
- the preparation of an annual report on the measures adopted in accordance with the regulation, to be transmitted, subject to the approval of the Board of Directors, through the entity responsible for the statutory audit to the Bank of Italy by June 30, and in any case within 6 months of the end of the financial year. For 2020, due to the health emergency, the deadline for submitting the report for the 2019 financial year has been extended to October 28, 2020.

In this regard, the Parent Company has begun a project to ensure compliance for all Group companies involved in the operations subject to the provisions of the regulation.

Corporate criminal liability

At the end of July 2020, Legislative Decree 75 of July 14, 2020 implementing Directive 1371/2017/EU entered force. It makes changes to the offenses considered within the scope of corporate criminal liability, in particular concerning the undue receipt of payments to the detriment of the State, undue inducement to give or promise benefits and fraud.

The offenses referred to in Article 25-septies of Legislative Decree 231/01 have been supplemented with provisions adopted in the context of the COVID emergency, i.e. Decree Law 18 of March 17, 2020, Decree of the President of the Council of Ministers of May 17, 2020 and the Decree Law 34 of May 19, 2020.

Supervisory reporting

On March 31, 2020, the Commission Implementing Regulation (EU) 429/2020 of February 2, 2020 came into force, amending Regulation 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions in accordance with Regulation no. 575/2013.

As from May 27, 2020, Regulation (EU) 605/2020 of the European Central Bank of April 9, 2020, amending Regulation (EU) 2015/534 on reporting of supervisory financial information will take effect.

On June 7, 2020, Law 40 of June 5, 2020 containing provisions on the temporary suspension of non-performing loan reports to the Central Credit Register and credit information systems entered into force.

In the first half of 2020, guidelines on harmonized definitions and models for the funding plans of credit institutions were published in accordance with the recommendation of the European Systemic Risk Board of December 20, 2012 (ESRB/2012/2), as were the EBA guidelines on reporting and disclosure regarding exposures subject to the measures applied in response to the COVID crisis.

Finally, the following consultations were launched in the first half of the year:

- EBA: indicators of global systemic importance, RTS on supervisory reporting of thresholds for authorization as a credit institution, ITS on supervisory reporting and public disclosure of IFs, ITS on specific reporting requirements for market risk;
- Bank of Italy: instructions for the observation of average global effective interest rates, 21st update of Circular no. 189/1993, 23rd update of Circular no. 148/1991, 19th update of Circular no. 217/1996, 26th update of Circular no. 115/1990, 13th update of Circular no. 272/2008,
- ECB: Regulation amending Regulation 1071/2013 concerning the balance sheet of the MFI sector.

The Parent Company participated in the public consultation launched by the Bank of Italy on May 20, 2020 on the proposal to amend the "Instructions for the observation average global effective interest rates pursuant to the Usury Act", formulating comments and proposals for changes to the text of the regulations through the ABI. The consultation ended on July 20, 2020; publication of the definitive text of the measure is pending.

Short selling

With Resolution no. 21303, of March 17, 2020, Consob introduced a ban on taking or increasing net short positions (short selling and other bearish speculative transactions, including those carried out using derivatives or other financial instruments), wherever carried out and including intraday positions, in the shares indicated in attachment 1 of the resolution. This prohibition was in force until May 17, 2020 and was applied to transactions carried out by an intermediary on own account and to transactions carried out by customers.

In this regard, the Parent Company has provided the necessary operational guidelines to the Group companies, also in order to support the companies involved in such transactions in meeting customer disclosure requirements.

Transparency

The decrees issued by the Government in response to the COVID emergency include provisions:

- on the signing and notification of financial and insurance contracts in a simplified manner in response to the health emergency (Decree Law 34 of May 19, 2020);
- on simplified notifications for the signing of contracts in response to the health emergency (Decree Law 23 of April 8, 2020).

The Parent Company, together with the proprietary technical unit responsible for the IT system, has defined the activities necessary to ensure the compliance of the Iccrea Cooperative Banking Group with these regulations.

ICT

During the first half of 2020, in addition to the application upgrading referred to earlier and the continuation of the projects already in progress, the ICT area was significantly involved in the project for the evolution of the information system of BCC Sistemi Informatici (SicraWeb) and the plan for the migration of affiliated mutual banks using other technical services providers to the information system of BCC-SI.

The main project activities carried out during the period include those associated with the broader initiative in customer relationship management (CRM) for the creation of new CRM tools (with particular regard to the Data and Reporting, Relational Front-End and Campaign projects). The roll-out of the new CRM tools to a limited cluster of banks is being planned for the second half of 2020. Starting from January 2021, taking advantage of the lessons learned with the 2020 release plan it will be possible to consider a large-scale migration of the Group's remaining mutual banks to the new application solutions.

Among digital transformation projects, major technological innovation and functional evolution initiatives have been largely completed (PSD2, online placement services, instant payments, customer care). At the same time, a list of 2020-2021 projects to be included in the medium-long term Digital Transformation Strategy has been proposed and agreed with the relevant units of BCC SI, the Parent Company and the pilot mutual banks (functional enhancement from a mobile-first perspective; remote/off-site product offering; phygital evolution; channel-CRM integration upgrading; "open credit" for individuals).

Initiatives also involved:

- the technological evolution of the current information system architecture with a project structured into 7 macro-areas of intervention: (Basic Framework, SICRA2 GK, Sales Network, SICRA2 JEVO, Foreign, Treasury and WEB Applications);
- evolution in the data governance and data platform areas (Data Masking, Data Hub);
- revision and unification in ICT Security of the models and tools for patching and hardening of systems;
- securing the BCC Sistemi Informatici network in accordance with Group guidelines and strengthening security levels on the most important and/or exposed systems;
- with more general regard to security profiles, the issues addressed included (i) the definition of a process for software development, with particular attention to the development aspects of secure software (security by design); (ii) the completion of data network segmentation activities, implementation of tools for the management and monitoring of system vulnerability assessment activities; (iii) the protection of all internet services through the “Web Application Firewall - WAF” technical infrastructures and protection systems from DDOS attacks; (iv) the strengthening of system administrator access procedures; (v) raising awareness on security issues through training programs that can also be accessed through the intranet.
- initiatives - already released on schedule between May and July this year -- in the credit area, with the implementation of solutions identified in response to priority issues highlighted in dialogue with the supervisory authorities as well. Additional measures in progress (and in part completed) regard the strengthening of the systems for managing real estate guarantees (the Perizie 2.0 application); the review of the default propagation management process; the introduction of credit monitoring indicators; the refinement of an early warning application (the "predictive alert system"); the creation of the ICBG customer file; and the transfer of the Group's information assets by the ICBG legal entities to the Data Hub and the Credit Database.

8. GROUP HUMAN RESOURCES

The workforce of the Iccrea Cooperative Banking Group totaled 22,196 employees at June 30, 2020 (21,736 FTE), distributed as follows:

Category	Number of employees June 30, 2020	FTE June 30, 2020
Mutual bank employees	18,729	18,306
Direct scope companies	3,021	2,998
Other companies	446	432
Total	**22,196**	**21,736**

The trends in new hires and terminations for the Iccrea Cooperative Banking Group in 2020 showed a net decrease of 23 (312 new hires compared with 335 terminations). In addition, 138 intra-group transfers of staff were recorded. The following table provides a comparison of figures at the end of 2019 and at June 30, 2020, distributed by position:

Position	31/12/2019		30/06/2020	
	Number of employees	FTE	Number of employees	FTE
Senior management	410	410	406	406
Middle management	6,228	6,203	6,291	6,265
Professional areas	15,581	15,148	15,499	15,065
Total	**22,219**	**21,761**	**22,196**	**21,736**

The network rationalization process continued with four mergers, which took legal effect in January 2020. The operations involved the following Group mutual banks:

- BCC San Giuseppe di Petralia Sottana and BCC Valledolmo into BCC San Giuseppe delle Madonie;
- BCC Umbria and Banca CRAS into Banca Centro;
- BCC di Riano and Banca di Formello e Trevignano Romano CC into BCC Della Provincia Romana;
- BCC Pordenonese and Banca di Monastier e del Sile CC into BCC Pordenonese e Monsile.

The process involved 930 employees.

During 2020, a voluntary retirement incentive plan was launched, aimed at enhancing the financial sustainability of the ICBG and taking advantage of the opportunities offered by the recent experimental regulations on pensions (so-called "Quota 100" early retirement option, the "female option" and the freeze on the life expectancy adjustment for eligibility for the "Fornero" early retirement option). Participation is open to all those who meet the eligibility requirements by March 31, 2022.

In the first half of the year, the companies in the direct scope had 22 employees leave through participation in the plan.

The procedure for the sale of the branches of Banca Sviluppo had already begun in 2019, governing the impact on the employment relationship of employees of the branches involved in the sale. In the first half of 2020, the sale of the Banca Sviluppo branches led to the exit of 99 employees, of whom 94 were transferred to other Group companies (4 to BCC Di Capaccio Paestum e Serino; 70 to Banca Credito Cooperativo Ravennate Forlivese e Imolese ; 17 to Credito Cooperativo Romagnolo; in addition, 3 employees were transferred to companies in the direct scope: 2 to Iccrea Banca; and 1 to BCC Creditoconsumo Spa).

The expansion of the Parent Company's workforce continued in 2020, in line with the organizational model developed to achieve the objectives of the reform.

The Parent Company's workforce increased by a net 62 in the first six months of 2020 (106 hires and 44 terminations), mainly attributable to additional implementations linked to the organizational needs associated with the new model defined following the establishment of the ICBG and, as reported above, the progressive implementation of the early retirement incentive plan.

In 2020, the transfer to the Parent Company of the employees of the centralized control functions was carried out with the aim of enhancing the efficiency of controls in the Parent Company in line with the guidance provided by the European and national supervisory authorities, with the adoption of a centralized model in order to make the analysis, control and reporting processes as uniform as possible, and to strengthen synergies within the functions. This operation, which had already been adopted for the affiliated mutual banks, also involved 16 employees at the companies of the direct scope in 2020.

During the first half of 2020, the procedure for the transfer of the IT operations of Iccrea Banca and Iccrea BancaImpresa to BCC SI was launched, involving the transfer of employment for 193 staff, of whom 171 from Iccrea Banca and 22 from Iccrea BancaImpresa.

Remuneration and incentive policies

In accordance with provisions concerning remuneration and incentive policies and practices within banks and banking groups issued by the Bank of Italy in Circular no. 285/2013, the Parent Company has adopted Group policies regarding the remuneration and incentive systems – in line with the characteristics of the Group and of all its component parts, taking due account of the vocation of cooperation with local communities of the Group and of the affiliated banks – in order to achieve a unified, proportional application of related legislation and to ensure observance of the minimum applicable requirements.

The document was approved by the shareholders of the Parent Company – based on a proposal by the Board of Directors – meeting in ordinary session on July 16, 2020 and is available on the Bank's website.

The Group's asset management company, BCC Risparmio&Previdenza, has prepared its own remuneration and incentive policies, in compliance with the specific sector regulations and with the Group's Remuneration and Incentive Policy.

As for the goal of ensuring standardization in the application of the principles underlying the ICBG's remuneration and incentives policies, a standard was drafted to assist the affiliated banks in adoption of their own remuneration policies and incentive systems consistent with Group policies, applicable regulations and the principle of proportionality.

Labor relations

On the labor relations front, the first half of 2019 saw the continuation of constructive dialog with trade unions, collaborating to find solutions that are to the benefit of employees in terms of their employment, careers and remuneration, while providing constant, constructive support throughout the reorganization of the Group's operational and corporate functions.

In response to the significant organizational changes that affected the Parent Company, the first half of the year was characterized by intense dialog concerning the information notified pursuant to Article 12 of the company-level supplementary bargaining agreement, as well as the management of the conciliation procedures for incentivized terminations (the "Quota 100" program).

Also characterizing the first half of 2020, however, was the spread of the COVID-19 pandemic, which from the end of February onwards involved the company and trade unions at all levels in an ongoing discussion to guarantee both the necessary operational continuity and the health and safety of workers.

In this context, important agreements were signed, including: the Federcasse protocols of March 24 and May 7, which govern the implementation of safety measures for the prevention of COVID-19 contagion and the framework agreement of June 9 governing worker absences during the emergency period.

Numerous meetings were held by the Company and National Safety Committees aimed at preventing the spread of the disease, agreeing company guidelines on managing the emergency and subsequent amendments, in accordance with legislative developments.

Despite the difficulties deriving from the lockdown, in March procedures were begun for the sale by Banca Sviluppo of the separate business units consisting of: 2 branches in Campania, which were acquired by BCC Capaccio, Paestum e Serino and 21 branches in Emilia, acquired by Credito Romagnolo, Riviera Banca and Credito Cooperativo Ravennate Forlivese e Imolese. At the same time, the 23 surplus employees who were working at the Forlimpopoli office were relocated, in part to the aforementioned banks and in part to companies within the direct scope.

Furthermore, on April 30 procedures were begun for the transfer of the IT operations of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici, involving the transfer of employment for 193 staff, of whom 171 from Iccrea Banca and 22 from Iccrea BancaImpresa.

Discussions between the parties continued until July 2, 2020, the day on which a preliminary agreement was reached, signed by all the trade unions represented in the Group, which sets out the impact in terms of remuneration and work rules for the employees involved in the transfer.

Finally, the end of the lockdown made it possible to finalize additional procedures, such as the agreement on Foncoop for funded training, which will give companies within the direct scope to access the related financing.

At the Group banks, union procedures concerning the reorganization associated with revision of the distribution model also continued (BCC Alpi Marittime and BCC Recanati).

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

RISKS

The Iccrea Banking Group conducts its business in accordance with the principles of prudence and risk containment, based on the need for stability associated with banking activity and consistent with the principles of mutual banking that it inform it and with the ultimate purpose of its formation, namely to preserve and strengthen the historical mission of the affiliated banks (mutuality and support to local communities).

The Parent Company, Iccrea Banca, directs the Group towards business models consistent with the needs of the affiliated banks and the distinctive features of their operations (localism, close relations with customers and local institutions). It pursues the Group's development objectives by ensuring, through balanced risk management, reliable and sustainable generation of value over time, adopting organizational measures and Group structures suitable for limiting risks and seeks to ensure the solvency and liquidity of the Group and the financial sustainability of the Guarantee Scheme in which the affiliated banks and the Parent Company are mutually committed.

The Parent Company's management, coordination and control activities are therefore aimed at:

- pursuing sound and prudent management, defining clear long-term strategies;
- favoring the preservation of capital, income generating capacity and liquidity;
- effectively managing risks and conflicts of interest;
- ensuring compliance with applicable legislation on the protection of savers, customers, the integrity of the Group and, more generally, the financial system;
- supporting the implementation of the mutual aims of the affiliated banks and fostering the growth of their overall competitiveness, with particular regard to the responsible development of the territories in which they operate;
- reconciling the overall cost effectiveness of the Group, as a unitary business structure, with the interests and autonomy of the companies within the scope of its management and coordination powers.

These activities are pursued through the Group's Risk Appetite Framework (hereinafter "RAF"), i.e. the framework with which the Parent Company defines - in line with the maximum risk that can be assumed (Risk Capacity), the business model and the Group strategy, the operational plan and the company incentive system - the risk objectives or risk appetite (Risk Appetite) and the tolerance thresholds (Risk Tolerance), taking due account of possible adverse scenarios. Starting from the RAF, consistent operating limits are specified and incorporated within overall risk governance policies. The latter in turn represent the internal rules governing risk assumption and management and are an integral part of the risk management process.

The RAF is intended to explicate the medium/long-term vision of the desired risk profile for the Group as a whole and for each Group company, defining the risk area within which the management functions must operate in the pursuit of corporate strategies. Within the RAF, the capital and liquidity adequacy assessment process (ICAAP and ILAAP) represents verification of the consistency of the Risk Appetite choices with the available capital and liquidity resources, guiding any subsequent modification of those choices and the resulting overall strategy decisions.

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

The internal control system monitors risk management process to ensuring the comprehensiveness, suitability, functionality (by being effective and efficient) and reliability of the Risk Policies, the framework for the organizational and process development and the systematic execution of all operational and business activities pursued by the Group companies. This is to ensure sound and prudent management and support the sustainable implementation of the overall risk strategy. The structure of the internal control system, which is discussed in greater detail in a specific section, was designed in accordance with the organizational arrangements of the Group, taking account of the specific operations and associated risk profiles of each of the companies belonging to it.

In consideration of the business model and the economic and market environment in which the Iccrea Cooperative Banking Group operates, the risks identified as significant and subject to assessment through the internal assessment process are the following:

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

- credit valuation adjustment (CVA) risk: a “credit valuation adjustment” is an adjustment of market’s interim assessment of transactions with a counterparty. That adjustment reflects the current market value of counterparty risk in respect of the entity. It does not reflect the current market value of the entity’s credit risk in respect of the counterparty.
- operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that are difficult to measure/quantify for which the level of the suitability/compliance of the relative management processes is assessed;
- interest rate risk on the banking book: risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- concentration risk: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- strategic risk: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes;
- sovereign risk: risk of loss due to a deterioration in the credit rating or the default of a sovereign state counterparty;
- real estate risk: risk of losses arising from a change in the prices of real estate held in the bank’s portfolio (investments in real estate investment funds, other properties not used in operations;
- equity risk: risk of loss arising from a change in the value of equity instruments in the banking book;
- liquidity risk: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the possibility of incurring capital losses on the sale of assets (market liquidity risk);
- residual risk: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

The completion of the RAF project and its operational implementation in the various analytical dimensions (i.e. the individual RASs) led to the definition of the Group Risk Appetite Statement, i.e. the risk strategy of the ICBG for 2020, in line with the risk profiles included in the related framework. The ICBG risk strategy for 2020 was revised and updated in August 2020 at the same time as the review of the Group Operational Plan to incorporate the effects of the COVID-19 scenario.

In terms of capital adequacy, work focused on:

- optimizing the capital structure of the Group and the individual affiliated banks, with a view to convergence towards the levels found at comparable peers, using subordinated Tier 2 instruments to:
    - strengthen the capitalization of the affiliated banks in order to enhance their capital soundness and increase the potential for development or consolidation in sectors, markets and territories deemed of strategic interest by the Group;
    - start a gradual process of diversifying financial resources for compliance with solvency and MREL requirements;
- calibrating capital indicators at levels such as to ensure compliance with the levels expected by regulators (P2G and CCB) - even with the option of temporarily operating below these levels due to the COVID-19 emergency - preserving adequate prudential buffers to ensure stability in the changed external environment;
- continuing Group initiatives to enhance the efficiency of capital resources to allocate to the development of plan actions (development of internal models in the credit sector, RWA optimization, improvement of CRM techniques, etc.);
- undertaking actions targeted at the financial sector to increase the efficiency of financial leverage to support net interest income, making use of the facilities available under the latest monetary policy actions, and to position the Group leverage ratio at a level more in line with those found at comparable peers.

Similarly, with regard to liquidity adequacy, efforts sought to:

- fully implement the liquidity management mechanisms resulting from the start-up of the Group to consolidate the structural liquidity profile through:
    - substantive maintenance of the liquidity deriving from direct customer funding to finance commercial lending with a concomitant increase in indirect funding;
    - new funding characterized by the progressive extension of maturities to manage the medium/long-term liquidity gap and lower costs;
    - diversification of sources of liquidity, reconverting the medium/long-term funding of the Parent Company to different funding channels with institutional counterparties, partly in order to satisfy the progressive MREL target;

- foster the use of funding facilities available through the new monetary policy actions of the ECB (TLTRO III), consistent with the overall risk profiles of each Group company;
- complete the initiatives involving the treasury sector through the consolidation of the operating model in support of collateralized operations (collateralizations, intermediation with the ECB and Cassa Compensazione e Garanzia, ABACO, covered bonds) by containing the ratio of encumbered assets to total assets.

With regard to the risks for which significant impacts for the ICBG have been identified, the main mitigation actions undertaken are indicated below:

- credit risk:
  - continuing the reduction of the gross NPL stock through the operational implementation of a plan that sets clear quantitative reduction objectives (intermediate and final), which in addition to continuing disposals through structured finance operations - especially with GACS support – is also being pursued through:
    - ✓ the development of a highly skilled hub and procedures for the large-scale management of NPLs dedicated exclusively to recovery activities;
    - ✓ the strengthening of the impaired credit management model to trigger remedial actions from the first signs of deterioration in the position;
  - continuing the qualitative repositioning of the portfolio risk profile through the implementation of credit strategies with new targeted production to:
    - ✓ achieve a sustainable portfolio objective consistent with the Group's risk appetite through targeted strategies that combine the customer's risk level with proportionate guarantees;
    - ✓ mitigate the concentration risk of the portfolio in respect of individual borrowers (or group of connected customers) and specific economic sectors through individually specified risk limits for Group companies that foster the diversification of the loan portfolio;
  - implementing more prudent coverage policies for the impaired component of the loan portfolio, taking due account of the impact of the COVID-19 emergency on risk parameters (ECL models).
- financial risks:
  - establishing a financial portfolio (the strategic portfolio) of Italian government securities to support net interest income, financed back-to-back through the ECB or through market repos, commensurate with the facilities available under recent monetary policy actions (TLTRO-III), with the portfolio gradually being wound down until their expiry;
  - dynamically managing the financial portfolio (the investment – HTCS portfolio) through:
    - ✓ the search for extra returns from market volatility, in compliance with the risk limits and capital resources allocated to these operations;
    - ✓ the optimization of the cost of funding through greater use of "market" forms of funding in compliance with the established duration gap limits;
    - ✓ the gradual diversification of the portfolio with EU government assets, as well as financial and corporate assets with high credit standing;
- efficiently managing at the Group level excess liquidity and the interest rate risk profile on the banking book in order to:
- optimize the mismatching between Group assets and liabilities and minimize the sensitivity of net interest income;
- seek alternative returns from the market (e.g. use of ECB tiered facilities, greater penetration of asset management);
- completing initiatives involving the financial segment through consolidation of the operating model and the offer of asset management services.

UNCERTAINTIES

Impact of the economic crisis brought about by the COVID-19 pandemic

The COVID-19 pandemic is the first truly global crisis since the financial crisis of 2008. As a result of this current emergency, we are likely to see a significant – and not short-term – contraction in GDP given the economic slowdown that was already under way prior to the epidemic. The actual size of the contraction remains difficult to forecast, as can be seen in the variability of estimates released by leading research institutes and national and supranational authorities and organizations.

However, compared with the 2008 crisis, the health emergency is occurring in an environment characterized by new, structural elements, such as (*i*) a more solid, more resilient banking industry, (*ii*) a deeply rooted regulatory framework, and (*iii*) more timely, more appropriate reactions by the authorities aimed at maintaining the ability of banks to support the real economy and avoid the procyclical effects triggered by certain responses to the previous crisis of 2008.

The ICBG operates in Italy. Due to the effects of the partial and temporary shutdown of economic activity connected to the pandemic, 2020 outlook for Italy's economy is extremely uncertain, while national developments will certainly feel the effects that the pandemic is having on the global economy.

At the moment, it is not possible to predict with accuracy the impact this will have of Italy's economy, as it will depend on how long the emergency lasts (taking account, too, of the risk of another lockdown), on the efficacy of steps taken by the authorities, on the resilience of businesses and households and their ability to react in a timely manner, and on the role that the banking system will be able to play in supporting the economy.

Of course, the economic measures that the Italian government and other European institutions were quick to implement, as well as any additional steps that may be taken throughout the year should a worsening of the crisis call for them, will contribute to mitigating the recessionary effects of the pandemic.

Given the sounder condition of Europe's banking industry today in terms of capital and liquidity, banking oversight has also been moving towards an approach that seeks to avoid procyclical impacts. Accordingly, in order to promote the ability of the banking system to continue providing financial support to businesses and households, the ECB now allows for a greater use of the flexibility permitted under prudential regulations by loosening certain restrictions and postponing supervisory initiatives that are not deemed to be of critical importance. Within the scope of these initiatives, and with regard to the ICBG, the supervisory authorities have also announced the suspension of the definition and transmission of the NPE strategy and has, as noted, temporarily postponed the comprehensive assessment (to mid-August 2020).

Generally speaking, the measures implemented by Italian and European authorities and organizations enable banks to support lending to firms and households by making greater use of capital and liquidity levers and benefiting from public guarantees that will support actions governed by national rules. We are waiting to see if these measures, together with other fiscal policy measures, are able to effectively mitigate the impact on profitability and, in particular, on risk indicators, at least over short and medium term.

Indeed, the moratorium granted to borrowers by the Cure Italy Decree will not create additional costs for banks given that it complies with the principal of actuarial neutrality. The moratoriums decreed by various government measures, in the light of specifications provided by international authorities (ESMA and EBA in particular), for performing customers (i.e. those that were not already experiencing difficulties independently of the current circumstances) in accordance with the aforementioned decree are neutral in relation to prevailing policies for assessing credit risk and will not lead to automatic changes in the classification of these exposures.

Furthermore, during this period, the public guarantees provided through the Law 662/96 Fund and/or of Cassa Depositi e Prestiti serve to reinforce lending to small and medium-sized enterprises. In this regard, and in consideration of the expected partial deterioration in credit quality at the end of the moratorium, these guarantees will help to reduce the expected future losses on these exposures by improving recovery rates (for a lower LGD compared with what would prevail for positions without guarantees).

These areas of intervention are of particular importance for the Iccrea Cooperative Banking Group and, of course, for the affiliated banks, especially considering their business model, which is targeted at supporting households and small and medium-sized enterprises, the customer segments on which the main support measures approved by the Italian government are focused.

That said, the high degree of uncertainty surrounding developments in the economy and the market still require that we be ready for potential future market corrections, for a deterioration in liquidity on the financial markets and for a revaluation of existing risk management frameworks in order to verify their capacity to take sufficient account of the unique characteristics of this crisis.

The impact of the crisis on the quality of bank assets will represent a key challenge for the future. Asset quality is expected to deteriorate due to the growing volumes of impaired loans and the increase in the cost of risk within a scenario of potential deterioration of the economy. Within this context, the ability to adequately assess portfolio quality will be of increasing importance, taking account, too, of the temporary nature of the (legislative and non-legislative) moratoriums as described in detail above, as well as of any further support measures. Given the difficult of adequately predicting the severity and duration of the crisis, strategies aimed at maintaining adequate levels of capitalization are of even greater importance, including forward-looking assessments of capital that take account of the current uncertainties and protect the quality and level of capital by, in part, maintaining more conservative policies of distribution and remuneration.

Monetary policy responses to the crisis have caused interest rates to decline even further. Although these lower interest rates are an important factor in supporting economic activity, they also certainly have a negative impact on bank profitability, while contributing to the further accumulation of valuation risks on the financial markets through investment strategies that underestimate the risks involved and incentivizing growth in bank borrowing in the highest-risk segments. Despite the importance of continuing to lend during the crisis, it is of the utmost importance to maintain (if not also reinforce) robust risk assessment practices during the origination process. Also essential is an ability to manage ICT risks and digital security, while paying particularly close attention to the growing number and new forms of financial crime that have, as the reader will be aware, characterized periods of severe economic upheaval.

These uncertainties also have an impact on the factors underlying the forward-looking models required by IFRS 9 for the calculation of expected losses on credit positions. In this regard, and as mentioned previously, on March 20, 2020, the ECB issued a communication calling on banks to adopt long-term outlooks characterized by adequate stability in their scenario analyzes for the purposes of calculating the cost of credit, in line with the implicit requirements of that financial reporting standard, in order to reduce volatility in the calculation of risk parameters, while also stating that it could be providing banks with macroeconomic scenarios for the purpose of applying the provisioning policies of IFRS 9. In this regard, and as mentioned previously, the Group has adapted the IFRS 9 impairment model used to calculate adjustments to the value of performing loans and has defined a specific conditioning model for the non-performing portfolio in response to COVID-19, which has been used for the 2020 half-year report to calculate and include an impairment add-on to the one generated by the process envisaged under prevailing internal rules (drafted prior to the COVID-19 emergency).

Taking account of the Group's revised budget, as approved on August 7, and the current lack of a strategic plan for the Group that also factors in the future effects of the new macroeconomic conditions, in compliance with requirements for additional disclosure beyond the ordinary disclosure requirements and in the presence of market trigger events that point to a potential reduction in the value of assets, as declared by the competent authorities, especially adverse future scenarios have been used in order to verify the robustness of the probability test for the DTAs recognized and in the measurement of equity investments and goodwill.

In this regard, it should be noted that preparation of the separate and consolidated interim financial statements for the Parent Company and the ICBG called for a more in-depth analysis than normal, including in relation to the need to provide more information on the Group's circumstances, in terms of both qualitative disclosures and more detailed numbers on the robustness of the measurements of certain assets in response to the potential impact of the spread of COVID-19 on our performance and financial position.

The Group pays constant attention to the development of tools to measure the potential impact on operations of the various risks and uncertainties (particularly by way of sensitivity analysis and stress testing) in order to ensure the timely adaptation of strategies – in terms of the branch network, the organization, and the management/rationalization of costs – in response to the changing environment. These risks and uncertainties are also the subject of constant monitoring by way of the Group's set of risk policies and rules, while also seeing to all updates and adaptations in relation to changes in strategy, in the context of operations, and in market expectations. This monitoring and development is aimed at verifying the adequacy of these polices and rules and their proper implementation. Therefore, the risks and uncertainties described above have been subjected to an evaluation process aimed, in part, at underscoring the impact of changes market parameters and conditions on the company's performance.

More specifically, for the purposes of preparing this interim financial report, we have applied the recommendations issued by Consob in its warning notice no. 6/20 of April 9, 2020[18], as mentioned above, with regard to the information to be provided on: (*i*) the risks related to COVID-19 that could have an impact on performance or financial position; (*ii*) any measures taken or planned to mitigate these risks; and (*iii*) an indication of a qualitative and/or quantitative nature of the potential impacts that have been considered in estimating the company's future performance.

Also of importance are the Consob recommendations, in line with those of the public statement by the ESMA[19] on May 20, 2020, concerning the implications of the COVID-19 outbreak on the half-yearly financial reports and the need to carefully assess the relevance of business plans in order to take account of the main risks related to the pandemic that could inhibit achieving strategic objects and/or compromise business continuity, so as to verify any impairment that may have occurred in recognized assets. In particular, Consob has underscored the importance the determinations directors are called upon to make when preparing the interim financial reports in accordance with IAS 36 – Impairment of Assets and, in this regard, whether the effects of the COVID-19 epidemic are a sufficient indication of impairment to require specific tests of the recoverability of the assets. Consob has also underscored the importance of describing the significant risks and uncertainties related to COVID-19 and in reference to the income statement, as well as to provide information (*i*) on the impact of COVID-19 on strategic planning and on plan targets, on financial performance, on financial standing, and on cash flows and (*ii*) on the steps taken and/or planned in order to manage and mitigate the impact of COVID-19 on assets and performance and on related progress made.

This additional information has been provided in the ICBG separate and consolidated interim financial reports as at June 30, 2020.

Of particular note is the information provided in this report and/or in the notes to the financial statements concerning:

- the procedures for calculating ECL in accordance with IFRS 9, subject to action in relation to financial reporting as at June 30, 2020, particularly as concerns: (*i*) the updates to the risk models used by the former IBG and by the banks that use the BCC SI information system, with changes in relation to PD and LGD; (*ii*) the procedures for factoring in the effects of the health emergency on this model; and (*iii*) the model (and the procedures for factoring in the "COVID effect") used by the banks that use non-proprietary information systems, which is subject to re-performing by the Parent Company's technical units;
- the measurement of impaired loans in this new market environment, including in light of the more conservative measures adopted by the Group for the half-yearly report;
- the impairment testing of equity investments and goodwill[20], which is of particular importance in light of the aforementioned Consob recommendations and is the subject of in-depth analysis by way of the assessments made by an independent third party;

[18] "Covid 19 - Richiamo di attenzione sull'informativa finanziaria".

[19] Based on which, the determinations directors are called upon to make when preparing the interim financial reports in accordance with IAS 36 – Impairment of Assets and, in particular, whether the effects of the COVID-19 epidemic are a sufficient indication of impairment to require specific tests of the recoverability of the assets are of importance.

[20] IAS 36 requires that certain types of assets undergo impairment testing at least once per year in order to verify the recoverability of their carrying value. The same standard also states that, when preparing interim financial reports, certain qualitative and quantitative analyses are to be conducted in order to determine the existence of any (internal or external) indicators of impairment and,

- the probability testing of DTAs on the separate financial statements of the affiliated banks and other entities of the ICBG, which – in relation to the Consob recommendations – called for more detailed sensitivity analyses aimed at verifying robustness based on available information, including in consideration of the fact that, as mentioned previously, the Group's strategic planning process has not been completed due to the pandemic.

Conversely, with regard to the portfolio of government securities, the impact on the stability of own funds and on capital ratios in this current market environment are limited given the classification and ALM policies adopted by the Group and the guidelines provided over time by the Parent Company. It should also be noted in this regard that prevailing prudential regulations allow the use of the recently introduced (Regulation (EU) 2020/873) prudential filter, which temporarily allows - in decreasing percentages until 2022 – the mitigation of the impact on CET1 of fluctuations in the value of exposures to central government measured at FVTOCI. This filter, which the Group has not yet implemented, can be activated quickly when needed.

Comprehensive assessment

The European supervisory authority (the ECB) had decided to put the ICBG through a Comprehensive Assessment exercise in 2020, which involves an Asset Quality Review (AQR) and a stress test based on an adverse scenario common to all European banks (EU-wide stress test).

In the first half of 2020, the Parent Company, together with the affiliated banks and following the discussions with the Joint Supervisory Team (JST), carried out the preparatory activities for the Comprehensive Assessment exercise. In particular, as part of the activities aimed at conducting the Asset Quality Review during the first few months of the year, the activities necessary for the preparation of the reference templates were completed and control tools were prepared and deployed to strengthen the data quality processes supporting the exercise. As part of the activities associated with the stress test exercise, in March the templates for Advanced Data Collection activities were transmitted to the supervisory authorities to test the effective operation of procedures as part of the preparatory activities for the exercise. In the days immediately following this submission, and following the recent events connected with the spread of COVID-19, the EBA decided to postpone the performance of the EU-wide stress test to 2021, as it is felt that banks must focus all their efforts on ensuring business continuity in this challenging environment, guaranteeing the proper operation of their core business and all critical functions, and avoid placing the additional burden of operations connected with the regulatory exercise on the operational structures of the banks, which are already under strain. Accordingly, the Comprehensive Assessment exercise involving the ICBG was temporarily suspended and will begin again at the start of the second half of this year.

Resolution planning activities and Minimum Requirement of Eligible Liabilities (MREL)

In 2020, Iccrea Banca, as Parent Company, was involved in numerous initiatives and studies as part of the activities relating to the planning of the resolution of the Iccrea Cooperative Banking Group envisaged by the Single Resolution Board (SRB).

With reference to the MREL (Minimum Requirement of Eligible Liabilities), Iccrea Banca received from the Single Resolution Board the decision on the minimum requirement of own funds and eligible liabilities 2020 at Group level, including subordination requirement, intermediate requirements and target requirement that must be met by 30 June 2023.

In 2021, the Group will receive from the Single Resolution Board the new decision on the MREL requirement in the light of the new 2020 MREL SRB Policy (effective from January 1, 2021) which implements the Banking Package and the evolutions on the resolvability of the Group.

consequently, of the conditions for conducting impairment tests more frequently than the standard of once per year.

10. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

Supervisory Review and Evaluation Process (SREP)

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), on December 4, 2019, the supervisory authorities notified Iccrea Banca of the findings of the SREP decision, which establishes the prudential requirements to be complied with at consolidated level with effect from January 1, 2020 (divided into own funds requirements and quality requirements).

With this decision, which is the first assigned at a consolidated level for the Iccrea Cooperative Banking Group since its establishment, the supervisory authorities have established own funds requirements for 2020 that include:

- an additional Pillar 2 requirement (P2R) of 2.5% to be held in the form of Common Equity Tier 1 capital, to be maintained on an ongoing basis, in accordance with Article 16 of Regulation (EU) no. 1024/2013;
- a recommendation for Pillar 2 Guidance (P2G) of 1.25%, which should consist entirely of Common Equity Tier 1 capital and held in addition to the Overall Capital Requirement (OCR).

Given the above, for 2020 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.5%, of which at least 7% shall consist of Common Equity Tier 1 instruments;
- an OCR equal to 13%, of which at least 9.5% shall consist of Common Equity Tier 1 instruments.

With regard to the Group’s affiliated banks, the SREP decision did not impose own funds requirements to be met on an individual basis. Therefore, in order to comply with the aforementioned consolidated requirements, mechanisms have been provided for their allocation at individual level within the main risk governance processes (i.e. RAF, EWS), compatibly with the capital resources of each affiliated bank, thus ensuring that the Group’s strategies and capital constraints are also reflected at the individual level.

As already mentioned, on March 12, 2020 the ECB, having noted that the banks subject to supervision could have encountered difficulties in ensuring continuous compliance with capital requirements as a result of the COVID-19 emergency and the related impact on their activities, operations and capital and liquidity situation, granted significant supervised entities the possibility of using equity instruments not qualified as Common Equity Tier 1 to meet part of the additional Pillar 2 own funds requirements. In this regard, on April 8, 2020, the ECB notified Iccrea Banca of the decision to change the composition of the additional Pillar 2 own funds requirement notified on December 4, 2019. With this decision, the supervisory authority amended the initial SREP decision, keeping the previous quantitative requirements unchanged but allowing the additional Pillar 2 own funds requirement (P2R) to also be met with Additional Tier 1 and Tier 2 instruments, within the limits of certain percentages. More specifically, at least 56.25% of the P2R shall be held in the form of Common Equity Tier 1 (CET1), with Tier 1 capital accounting for at least 75%.

In response to this new decision, the Group has conducted studies at both the consolidated and individual levels in order to identify the complete scope of risk governance arrangements strictly connected to the SREP decision and therefore potentially impacted by these changes, with particular regard to the issues of capital adequacy and the effects deriving from the application of capital management and capital allocation approaches.

In greater detail, considering the special characteristics of the methodological and operating systems of the risk governance frameworks defined and adopted by the Group, these studies concentrated:

- at the consolidated level, on the Risk Appetite Framework, the ICAAP framework and the Recovery Plan, with specific reference to the thresholds defined for the capital adequacy indicators;
- at the individual level, on the key and unique operating mechanisms of the ICBG (the Guarantee System - GS - and the Early Warning System), the definition of the reference thresholds for the execution of the stress test for GS purposes (the GS threshold), the consequent quantification of the readily available funds (RAFs), the associated allotment of the funding obligation among the participating banks and the determination of the thresholds in the EWS and RAF area.

Following the analysis, it was determined that, at the consolidated level and taking account of the structure of the Group's capital, in which CET1 components predominate, there was no need to recalibrate the capital ratio thresholds in the context of the RAF/RAS, ICAAP and the Recovery Plan, confirming the appropriateness of covering the P2R requirement entirely with CET1 instruments.

At the individual level, the capital structure of the affiliated banks is similar to that found at the consolidated level, with very few immaterial exceptions. Therefore, the application of the ECB notice of April 8 would have had marginal positive impacts. In consideration of the above, therefore, it was decided not to modify the Group's risk governance arrangements, considering that the amendment to the SREP decision had substantially non-material impacts both on the Group as a whole and on its individual members.

Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)

In the first half, activities concerning the application of the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP) were performed and completed.

More specifically, the ICAAP and ILAAP processes were implemented on the basis of the target configuration defined by the Group, provided for execution of all respective process phases – i.e. identification, measurement, and assessment of risks under both baseline and adverse scenarios, etc. – and the assessment and certification of the adequacy of capital (for the Capital Adequacy Statement - CAS) and liquidity (for the Liquidity Adequacy Statement - LAS).

The analyzes performed in assessing adequacy were conducted at both the individual and consolidated levels and were developed, in accordance with the request of the supervisory authorities issued on April 7, 2020 in a specific communication, using a pre-COVID macroeconomic context.

The findings of the assessments were formalized within the Group ICAAP and ILAAP package, which was submitted to the supervisory authorities in May 2020.

At the consolidated level, the ICAAP assessments from the various perspectives considered (regulatory, internal rules and economic) found that capital was adequate over the entire time horizon of the baseline scenario. More specifically:

- with regard to the regulatory perspective, the CET1 and TC ratios were stably above the established thresholds both at the regulatory level and in terms of the main risk governance processes and had significant capital buffers over the time horizon considered;
- from the economic perspective, risk-taking capacity showed that the levels of capital determined on a going-concern basis were amply sufficient to cover potential unexpected losses in relation to the Group's risks.

The various assessments conducted, taking account of the integrated-perspectives approach under adverse conditions, pointed to an overall profile of capital adequacy at the consolidated level over the entire time horizon considered. Specifically, the CET1 and TC ratios were stably above the minimum levels required under particularly adverse conditions over the time horizon considered.

The ILAAP assessments, in turn, indicated adequate overall liquidity for the ICBG over the entire time horizon, both at short term and over the longer term, taking account of both baseline operations and the adverse scenario. In particular, the estimated evolution of the LCR and NSFR indicators over the plan period did not reveal any critical issues in terms of the adequacy of operating and structural liquidity, as the expected positioning in the baseline scenario is consistent with the objectives set out in the RAS and the projection in the stress scenario exceeds not only the regulatory threshold but also the risk capacity specified in the 2020 RAS.

Liquidity waiver under Article 8 of the CRR and liquidity situation

On February 1, 2019 Iccrea Banca SpA, acting on behalf of its subsidiary Banca Mediocredito del Friuli Venezia Giulia SpA, submitted to the ECB an application for an exemption on an individual basis to the application of the prudential liquidity requirements, as well as to the liquidity reporting requirements set out in Part Six of Regulation (EU) no. 575/2013, previously granted by the supervisory authorities to Iccrea Banca S.p.A and the subsidiaries Iccrea BancaImpresa SpA and Banca per lo Sviluppo della Cooperazione di Credito SpA (constituting the so-called liquidity subgroup).

Following analysis of the application presented, the European Central Bank granted the exemption on an individual basis to the application of prudential liquidity requirements as well as the reporting and supervisory obligations to which they are subject as a single liquidity subgroup.

During 2019, starting with the launch of the ICBG, the Group's liquidity position remained within the risk limits set under both internal rules and external regulations. The RAS liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were always within their target ranges at values far above the risk appetite thresholds set when preparing the financial plan, with their average values during the last year being 251% and 130%, respectively.

Liquidity buffers at June 30 totaled around €33 billion, of which

- 82% was in securities with a market value of €27 billion (€25.0 billion net of the haircut), of which 99% represented by Italian government securities;
- 16% was in reserves held with central banks;
- 2% was in cash in hand.

In terms of structural liquidity, the regulatory NSFR pointed to adequate levels of stable funding to cover the financing needs generated by the various forms of commercial lending and investment in the financial portfolio.

Recovery Plan

The Recovery Plan is of particular strategic importance at the consolidated level and is therefore based on existing Group data, processes and systems. In this context, the operating process underlying the preparation of the Recovery Plan was executed at the consolidated level, under the direct responsibility of the Parent Company, which is responsible for drafting the Recovery Plan. The general responsibility for this document lies with the Board of Directors of the Parent Company, while its implementation and management is translated into the guidelines and principles of recovery governance, which call for the involvement of the Risk Committee and technical management units, such as the Recovery Committee as well as the boards of directors of the subsidiaries and affiliated banks, if involved in the implementation of the Recovery Plan.

During the second half of 2020, the activities related to the implementation of the Group's Recovery Framework were started in its target configuration and at the same time updating of the Group's Recovery Plan was begun.

In this regard, the assessment/analysis performed in order to assess the Group’s capacity to restore the performance and financial position of all Group companies in the event of highly adverse scenarios characterized by idiosyncratic and systemic risks also took account of the outbreak and spread of the COVID-19 emergency.

11. INTERNAL CONTROL SYSTEM

Structure of the Group internal control system

The structure of the internal control system (ICS) has been designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system, developing and implementing their control model through the set of rules, functions, structures, resources, processes and procedures designed to pursue, in compliance with the principles of sound and prudent management, the following purposes:

- verification of the implementation of corporate strategies and policies;
- support for the development of risk management arrangements and processes;
- ongoing monitoring of the appropriateness of risk management arrangements and processes;
- ongoing monitoring of risks and their containment within the limits indicated in the risk appetite framework (RAF);
- preserving the value of assets and protecting against losses;
- the effectiveness and efficiency of business processes;
- the reliability and security of corporate information and IT procedures;
- prevention of the risk that the Group companies could be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, rules and procedures.

The internal control system undergoes periodic evaluation by the corporate boards to ascertain their compliance with regulatory requirements and the principles and objectives defined in the Group policies governing the organizational structure of corporate control functions.

It plays a central role in Group organization, as it:

- represents a key source of information the corporate boards, enabling full awareness of the reference context and effective oversight of corporate risks and their interrelations;
- guides changes in strategic direction and company policies and enables the consistent adaptation of the organizational environment;
- oversees the functionality of management systems and compliance with prudential supervisory regulations;
- promotes the dissemination of an appropriate culture of risk, legality and corporate values.

Consistent with the foregoing, the Group's internal control system:

- ensures the completeness, appropriateness, functionality (in terms of efficiency and effectiveness) and reliability of the risk management process and its consistency with the RAF;
- provides for control activities at every operational and hierarchical level;
- ensures that any anomalies are promptly brought to the attention of the appropriate levels (the corporate boards, if significant) capable of rapidly activating the appropriate corrective actions;
- provides for specific procedures to deal with any breach of operating limits.

The Group has created a model of governance for the corporate control functions based on which the Parent Company governs the operation and primary responsibilities of the corporate control functions, while also defining the interrelationships between these functions and the various other corporate bodies. In line with the model adopted, the Parent Company is responsible for providing the Group with a unified internal control system that enables effective internal control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members.

To this end, the Group has established appropriate corporate control functions, endowed with autonomy and independence, dedicated to ensuring the correct and efficient functioning of the internal control system, reporting directly to the Parent Company's Board of Directors.

In particular, the following areas have been established for each of the corporate control functions:

- the Chief Audit Executive (CAE) area for the Internal Audit function;
- the Chief Compliance Officer (CCO) area for the Compliance function;
- the Chief Risk Officer (CRO) area for the Risk Management function;
- the Chief AML Officer (CAMLO) area for the Anti-Money Laundering function.

The Internal Audit function is a third-level control body, while the other functions perform second-level controls.

The proper functioning of the internal control system rests on the effective interaction of the corporate control functions, the other corporate bodies, and all other actors in the internal control system.

Within this context, the definition of efficient, effective mechanisms of interaction between the corporate control functions and other corporate bodies is important to the achievement of a coordinated view of risks and the execution of a dynamic process of adapting the methods of control to the changing internal and external landscape.

Within the scope of the Group’s internal control system, and in line with the provisions of related Group policies, the Committee for the Coordination of the Corporate Control Functions (hereinafter also the “Coordination Committee”) allows for the proper, effective interaction between the corporate control functions and other corporate bodies and for the maximization of synergies, while avoiding any overlaps, redundancies, or gaps in coverage.

The Coordination Committee assesses, studies and discusses issues related to the various phases of activity of the corporate control functions (i.e. planning, execution, reporting, and follow-up) in order to ensure the coordinated, harmonized development of the risk management framework by establishing consistent approaches, processes, and digital support tools within the Group that respect the specific characteristics of the various areas of business and operations of the affiliated banks and of the other companies of the Group to which they apply.

The Group internal control system underwent a thorough review by the Parent Company as part of the activities undertaken for the establishment of the ICBG. In 2018, the development activity performed led to the definition of the overall organizational framework.

In terms of governance and responsibility for the overall system of the internal control system, the model adopted in the ICBG hinges upon the responsibilities of the Parent Company for defining strategies, processes and control methods, tools, mechanisms and standards for planning and reporting activities, as well as the execution of second and third level controls.

Coordination with the Group is ensured not only by the proactive efforts of the Parent Company, but also by the ongoing relevance of the methods of governance for the affiliated banks and for the other companies of the Group in relation to the organizational model underlying creation of the ICBG.

In this regard, centralization of the corporate control functions can be seen operationally in the various entities of the Group in the form of a model of operations that calls for either:

- oversight and coordination of the locally established corporate control functions, over which the Parent Company assumes functional responsibility;
- the outsourcing of the corporate control functions to the Parent Company, governed by appropriate outsourcing agreements.

The model adopted for the companies within the direct scope

The functional model for the corporate control functions has been implemented operationally by the companies of the direct scope in the following ways:

- for the third-level control function, by outsourcing the corporate control functions to the Parent Company;
- for the second-level control functions, by setting up local corporate control functions and centralizing functional responsibility.

Therefore, for the second-level corporate control functions, the Parent Company has a central organizational unit that is functionally responsible at the Group level. The functions are in Parent Company units and in local units within the various subsidiaries. In order to ensure autonomy of action, the local units are positioned within the organizational hierarchy as reporting directly to their respective boards of directors.

As with the corporate control functions established at the Parent Company, the CCFs of the companies within the direct scope of consolidation also have direct access to the board of directors and the board of auditors without intermediation. They can also access all information/documentation relevant for the performance of their duties, including through direct contact with company employees, and are not involved in the activities they are called to control.

The responsible officers within the various companies of the direct scope, as selected by the Parent Company and recommended to the subsidiaries (the Board of Directors of the Parent Company passes binding appointment resolutions), are formally appointed or revoked by their respective boards of directors based on an opinion of the board of auditors. As for internal auditing, which is outsourced, also for the second-level corporate control functions the officers appointed for these functions are ordinarily (based on autonomous decisions of the Parent Company) employees of the Parent Company and seconded to the subsidiaries.

Given that the model described above is essentially in line with the previous arrangements within the former Iccrea Banking Group, it has continued to be implemented in pursuit of its mission and prerogatives without any interruption caused by the creation of the ICBG.

The model adopted for the affiliated banks

The model of centralizing the corporate control functions is implemented by the affiliated banks by outsourcing the second and third-level functions to the Parent Company under specific outsourcing agreements.

In terms of governance and responsibility for the overall system of the internal control system, the model adopted assigned responsibility to the Parent Company for defining the processes and control methods, as well as for the tools, mechanisms and standards for planning and reporting activities and for execution of second and third level controls. The outsourced corporate control functions of the affiliated banks are carried out by employees of the Parent Company who possess the required qualifications.

With regard to selection of the heads of the corporate control functions, the model defined by the ICBG states that this role (and, consequently, the related responsibilities in relation to the corporate bodies) can be assigned in relation to one or more affiliated banks, and so of limited number based on appropriate considerations of scope, effectiveness and efficiency of the structure of the specific function. The goal of this approach is to:

- take account of the particular traits of the ICBG, especially as concerns the organization’s size and widespread presence of the affiliated banks throughout Italy;
- pursue the objectives of effectiveness and efficiency in the overall operation of the ICS of the Iccrea Cooperative Banking Group;
- ensure the in-depth analysis, focus and understanding of the specific needs of each the individual banks as necessary in order to accurately exercise the control functions.

Furthermore, for the second-level control functions, this approach is necessary in order to:

- allow those responsible for taking on and managing risks and those who are responsible for their ongoing control to work closely together, as required by applicable laws and regulations, which state that organizational solutions are to be adopted that do not result in excessive distance from operations. For a full understanding of risks, it is critical for there to be constant interaction with the various business units;
- enable those who are responsible for the corporate control functions of the affiliated banks to actually dedicate the time needed to the activities related to the bank(s) for which they are responsible, while also ensuring the most effective interaction with the corporate bodies of the individual bank(s) such that they can perform their duties as defined by applicable legislation.

Proposals for the appointment of the heads of the corporate control functions for each member bank are made (based on opinions of the Risks Committee) by the Board of Directors of the Parent Company as recommended by the head of the corporate control functions of the Group. Approved appointments are reported to the member bank, whose corporate bodies then proceed with the related appointment (along with all obligations related to finalizing the outsourcing agreement).

The Internal Audit function

The Chief Audit Executive (CAE) area, working through the various coordinated organizational units, performs the third-level controls aimed at assessing the functioning, adequacy, comprehensiveness and reliability of the internal control system, the information system, the risk management process and the risk appetite framework, and provides recommendations aimed at improving the effectiveness and efficiency of the Group’s organization, governance and of the risk management and control processes and policies.

The Chief Audit Executive is responsible for implementing the Internal Audit function in accordance with the model designed when creating the ICBG, in terms of both organization and methodology, so as to fulfill the area’s duties and responsibilities in a unified, coordinated manner for the Parent Company, the companies of the direct and indirect scopes, and for all affiliated banks.

The CAE Area is organized into the following units:

- “Audit Operational Support”, which handles operational and administrative activities in support of the CAE, the internal audit managers of the affiliated banks and companies of the direct and indirect scopes, and the heads of the other organizational units of the function in meeting their respective obligations;

- “Audit Governance”, which supports the CAE in governance, defining processes, methodologies and tools and in planning and supervising internal audit activities and remote controls, as well as in performing the quality assurance activities of the function;
- “ICT Audit”, which performs IT audits in order to provide assessments on the overall IT risk situation with regard to the Parent Company, the companies subject to the latter’s management and coordination, and any external providers;
- “Parent Company and Direct and Indirect Scope Audit “, which is responsible for performing internal audit activities for the Parent Company and the companies within the direct and indirect scope in support of the CAE and the internal audit managers of the companies within the direct and indirect scope, based specific outsourcing agreements, and in accordance with the processes, methods and tools of the function. The unit also supports the CAE in coordinating consolidated audit activities or issues concerning the entire Group;
- “Mutual Bank Audit”, which is responsible for conducting internal audits at the affiliated banks, supporting the CAE and the internal audit managers of those banks, based on specific outsourcing agreements and in accordance with the processes, methods and audit tools defined by the function. This unit includes not only the internal audit manager of the mutual banks but also the Internal Audit Supervisor, who works with the Mutual Bank Audit manager in supervising, supporting and coordinating the correct application of the audit processes, methods and tools in carrying out internal audit activities and in the management of the resources under the responsibility of the internal audit managers of the affiliated banks;
- “Network Audit”, which is responsible for conducting internal audits of the branches of the affiliated banks of the Group and of Banca Sviluppo in line with the processes, methodologies, and audit tools defined by the function. Within the unit, a functional position of Internal Audit Coordinator has been established, with the responsibility for supporting the Head of Network Audit in the supervision and coordination of Internal Audit activities at branches: (i) ensuring methodological and operational consistency with the guidelines defined by the function; ii) providing assistance in scheduling resources; iii) supporting the performance of audit activities and related reporting; and iv) monitoring the network audit activities in order to ensure compliance with the approved audit plans.

Audits for 2020 were determined in accordance with the guidelines set out in the "2020 Planning Guidelines" approved by the Board of Directors of the Parent Company on December 20, 2019. However, in consideration of the emergency situation linked to the COVID-19 pandemic, the unit has partially reconsidered the guidelines also in order to ensure the balanced operational distribution of audits over the time horizon envisaged in the plan. The "execution" period of the audit missions provides for their completion by December 31, 2020, in line with the convergence path of the planning process towards the calendar year.

Internal Audit has prepared the "2020-2022 Group Audit Plan", approved by the Parent Company's Board of Directors on April 30, 2020, which is divided into two sections: "PC-CDS Audit Plan" and "Mutual Bank Audit Plan". Both include consolidated audits (addressing transversal issues involving the Parent Company and multiple ICBG banks and companies and, in the most significant cases, including ICT audits), audits of processes, the distribution network and the ICT area.

As part of the "Group Policy on Violation Reporting Systems" (approved by the Parent Company's Board of Directors on March 20, 2020), the CAE acts as Head of Internal Systems for Reporting Violations for the Parent Company and for the companies within the direct scope of consolidation, while the internal audit managers of the mutual banks have been designated as Heads of the Internal Systems for Reporting Violations for the individual affiliated banks.

The Risk Management function

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

The organizational structure of the Risk Management function of the Parent Company of the Iccrea Cooperative Banking Group includes, in addition to CRO staff and support units (e.g. Validation), the following structures:

- a “Group Risk Management” unit, which ensures the supervision and coordination of the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as risk assessment and monitoring on a consolidated basis and identification of any mitigation measures;
- a “Mutual Bank Risk Management” unit, which represents the “control center” for the risk profile of the individual affiliated banks, with responsibility for controlling and activating Early Warning System processes, in addition to representing the heads of the territorial Risk Management units and collaborating with Group Risk Management in defining the methodological and operational aspects of the Risk Management process, with particular regard to the aspects concerning the affiliated banks;
- a “Support and Coordination of Horizontal Initiatives”, which operates within the office of the Chief Risk Officer, providing coordinated management of the main initiatives involving the Risk Management function and the functional and interconnection mechanisms linking the function units;

- a “Validation” unit that validates the models developed internally to quantify the risks to which the Group is exposed.

The overall organization of the risk management units of the direct scope companies that under the governance arrangements report to the CRO area of Iccrea Banca, is completed by:

- the Group Risk Management unit for BCC Risparmio & Previdenza, Iccrea BancaImpresa, BCC CreditoConsumo, BCC Factoring, BCC Lease, and Banca Mediocredito del Friuli Venezia Giulia;
- the Mutual Bank Risk Management unit for Banca Sviluppo.

Serving within the Parent Company’s “Mutual Bank Risk Management” are area coordinators (the heads of the three Mutual Bank Risk Management Coordination units) and a “Risk Management Territorial Specialist”, representing the local Risk Management specialist. In this context, the Risk Management (RM) Territorial Specialist, with the contribution of associates if appropriate, supports the Risk Management units of the affiliated banks in determining and adopting strategies, policies and processes for the identification, assessment and control of the risks specified by the Risk Management function at the Iccrea Cooperative Banking Group level.

With reference to the above model for the affiliated banks, the activities for defining and approving the documentation underlying the overall ICS were completed, including the outsourcing contract, which describes the scope and procedures for the performance of second-level control activities related to risk management.

In parallel, the associated on-boarding activities were carried out by the Parent Company with a view to enabling the effective activation/implementation of the outsourcing contracts needed to ensure the performance of control services/activities.

With regard to the Risk Management function, the implementation plan of the component responsible for carrying out the outsourced activities (the “territorial component”) had been completed.

The Compliance function

The Compliance function is the Group’s second-level control function, which adopts a risk-based approach in the management of compliance risk. The Group Compliance function is performed within the Chief Compliance Officer area.

The manager of the Chief Compliance Officer Area is the Chief Compliance Officer. The Chief Compliance Officer directs and supervises, with the support of the individual heads of the compliance functions of the affiliated banks and Group companies (compliance officers) and the managers of the other organizational units of the Function, the process of managing compliance risk, directing and coordinating the performance of compliance activities for the Group, consistent with the provisions of the Cohesion Contract, and the Function’s policies and rules.

In this context, based on the Group’s organizational and operational model and the agreements for the outsourcing of the compliance function of the affiliated banks, the Function identifies, evaluates and monitors the applicable regulations for the entire Group, measuring and assessing the impact of those regulations on company processes and procedures. It also develops prevention and control policies, in compliance with the level of risk and the limits specified in the Risk Appetite Framework.

As part of the implementation of the Compliance Function according to the model designed at the time of setting up the ICBG, in order to take into consideration the special features of the Group, the Affiliate Bank Compliance unit was structured, with a focus on the coordination and operational control of the second-level control model relating to the affiliated banks and the direct scope companies Banca Sviluppo and BCC Sistemi Informatici, consistent with the compliance methods, processes and tools defined within the Function and in accordance with the provisions of the service agreements for the outsourcing of the compliance functions of the affiliated banks. The Compliance Unit of the affiliated banks is organized territorially through Compliance units and local DPOs, who are responsible for performing the operational activities envisaged by the second-level control model for managing compliance risk adopted by the Parent Company, in accordance with the outsourcing contracts referred to earlier.

The Anti-Money Laundering function

The Anti-Money Laundering function is the Group-level organization responsible for second-level activities connected with preventing and countering money laundering and terrorist financing operations, constantly verifying that control arrangements and information systems are capable of ensuring compliance with the applicable laws and regulations in this area.

The Group Anti-Money Laundering function is performed by the Chief AML Officer area, which responsible for the definition of guidelines, organizational principles and policies regarding the governance of the risk of money laundering and terrorist financing and oversees their implementation by the relevant organizational units and peripheral structures. The Chief AML Officer is responsible for the Anti-Money Laundering function of Iccrea Banca and has been granted authority for reporting suspicious transactions for Iccrea Banca by the Board of Directors, after consulting the Board of Auditors

The implementation of the Anti-Money Laundering function in accordance with the model developed at the time the ICBG was established, in order to take into consideration the special features of the Group, included the structuring of:

- the Affiliated Bank AML unit, with a focus on the coordination and operational control of the anti-money laundering control model relating to the affiliated banks. In particular, the Anti-Money Laundering function of the affiliated banks, outsourced to the Parent Company under the outsourcing contracts and mainly deployed through the local offices of the Parent Company, is subject to the coordination and monitoring of the Affiliated Bank AML unit. To this end, the so-called Local AML units have been created to report to the Affiliated Bank AML unit. These local units represent the anti-money laundering structures of the local offices, which under the outsourcing contracts are responsible for performing the support activities envisaged by the second-level control model for the management of money laundering and terrorist financing risk.
- With reference to the model outlined above and adopted for the affiliated banks, during the first half of 2020 the refinement of the internal rules underlying the outsourcing agreement (revision of Know-Your-Customer Policy for the affiliated banks, revision of Controls Manual, etc.) was finalized, while other provided for in the agreement and in the Parent Company AML Model were begun (new self-assessment model) and major projects for the unit were completed (release of new customer file) and other new projects were launched.
- the AML Direct Scope unit, which handles the coordination and operational supervision of the anti-money laundering control model for the Parent Company and the Group subsidiaries, who are subject to the regulatory obligations in question, that have established an anti-money laundering function. In particular, the anti-money laundering functions of the individual companies involved is subject to coordination and monitoring by the AML Direct Scope unit through functional reporting, while maintaining their hierarchical reporting line to their respective boards of directors. For the Parent Company, Iccrea Banca, the function coincides with the AML Direct Scope unit.

  Within the scope of the above model, the first half of 2020 was characterized by the following developments:

  - the completion of the organizational/IT activities necessary to enable the progressive adoption of a uniform procedure for all the companies within the direct scope to support anti-money laundering, with the selection of the “Gianos® 4D” IT system. This will standardize the processes for customer profiling and the identification/evaluation/reporting of potentially suspicious transactions;
  - the definition of the new structure of the CAMLO area for the companies in the direct scope, with the creation of the Institutional & Retail AML and Lending AML units, which will be completed in the second half of 2020 with the centralization with the Parent Company of the head of AML and the STR delegate for the companies within the direct scope as well;
  - the definition and approval of internal rules, mainly regarding to the Due Diligence Policy for the direct scope companies, the operating rules for the Institutional & Retail and Lending area and the consequent update of the AML function rules.

During the first half of 2020, the audit of the Group's AML process/function started at the end of 2019/early 2020 was completed, during which the AML function offered effective collaboration. The final assessment was “partially satisfactory” and remedial actions have already been implemented or are being completed.

Director responsible for the Internal Control System

In accordance with the provisions of the Cohesion Contract (pursuant to Article 37-bis of the Consolidated Banking Act and Bank of Italy Circular No. 285/2013, Part Three, Chapter 5), in the second quarter of 2019 the affiliated banks appointed from among their directors a director responsible for the internal control system, in order to facilitate the effective exercise of its responsibilities in this area. This director supports the Board of Directors on issues pertaining to risk management and the control systems of the individual affiliated banks, promoting compliance with the principles defined within the Group control system and fostering awareness among the members of the administrative and control bodies of the affiliated banks of the risk management policies and processes adopted within the Group.

As envisaged by the Group policy on the structure of the corporate control functions, issued by the Parent Company in April 2019 and implemented by the boards of directors of all the affiliated banks, the director responsible for the internal control system:

- provides opinions to the Board of Directors concerning proposed appointments of the heads of the corporate control functions and the Suspicious Transaction Report (STR) delegates;
- interacts directly with the heads of the corporate control functions of their entity and monitors their activities and their results on an ongoing basis;
- monitors the execution of the guidelines established by the Board of Directors and the corporate bodies of the Parent Company, drawing on the assistance of the corporate control functions, constantly evaluating the adequacy and effectiveness of the internal control system;
- examines in advance activity plans, annual reports and any additional reporting relating to the control activities performed by the corporate control functions for the Board of Directors;
- provides assessments and recommendations to the Board of Directors concerning compliance with the principles that must guide the internal control system and company organization.

Given the need to ensure that the directors responsible for the control systems of the affiliated banks can develop appropriate understanding of and experience in these issues, specific training activities were launched within the broader context of the corporate governance training plan for the directors. These activities will involve the CHRO, CAE, CRO, CCO and CAMLO areas, each in their operational areas of responsibility.

12. OTHER SIGNIFICANT INFORMATION

Iccrea rating

Following the recent volatility experienced in the markets and Italy in general, the rating agencies revised their ratings of the main banks. More specifically, for the Group:

- on March 24, 2020, Fitch Ratings lowered its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa from "BB" with a "stable'' outlook to "BB-" with a "negative" outlook;
- on March 26, 2020, S&P Global Rating confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at "BB", with a revision of the outlook from "stable" to "negative";
- on April 2, 2020, DBRS Morningstar confirmed its rating of the medium/long-term debt of Iccrea Banca at "BBB (low)", with a revision of the outlook from "stable" to "negative.

Treasury shares

At June 30, 2020, Iccrea Banca SpA held 87,267 shares with a par value of €51.65, repurchased at €52.80 a share, for a total of €4,607,697.60.

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

The control activities and processes relating to the generation of the information required for the preparation of the financial reports (annual and interim financial statements) are an integral part of the Bank's general control system for managing risks. While noting that no internal control system can entirely eliminate the risks of error or fraud, but can only measure those risks and lessen the likelihood of occurrence and mitigate the effects, these features seek to provide a reasonable guarantee of the veracity, accuracy, reliability and timeliness of financial reporting.
The control system is based upon two primary guidelines.

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

The annual consolidated and interim financial statements undergo auditing by EY SpA, which also conducted an accounting review pursuant to Article 14 of Legislative Decree 39/2010.

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

Transactions with related parties

In April 2019, Iccrea Banca adopted a Group Policy for the management of conflicts of interest and transactions with related parties. The Policy is aimed at ensuring the uniform management of transactions involving a conflict of interest for all ICBG entities, identifying the areas of competence and responsibilities of the subsidiaries and the Parent Company, creating management arrangements consistent with the regulations established by the Bank of Italy while at the same time serving the Group's articulated organizational and corporate structure.

The cases governed by the new policy are those falling under the provisions of Article 2391 of the Civil Code, the resolutions referred to in Article 136 of the Consolidated Banking Act, any situations of conflict of interest regarding guarantee agreements and intervention systems for affiliated banks and transactions with connected parties.

With particular reference to this latter case, the document in question refers to the obligation to comply with the limits on exposures to connected parties established in prudential supervisory regulations and lays down specific evaluation, decision-making and reporting procedures that involve, where necessary, the TCP committees set up within the companies of the banking group.

In addition, decision–making procedures have been tailored to the risk level of the transactions involved. Since the materiality threshold envisaged under supervisory regulations is 5% of consolidated own funds, a lower threshold, equal to 5% of the individual own funds of the Bank, has been established to identify significant-value transactions of lesser importance for which the enhanced decision-making process should be activated.

In order to streamline the procedures for low-risk transactions, the Policy fully exempts certain operations from the decision-making and disclosure procedures, including the low-value transactions, transactions connected with guarantee interventions, the centralization agreements between the affiliate banks and the Parent Company and the intercompany service agreements governed by the Group rules if their value classifies them as being of lesser importance.

Although the materiality threshold would be €1 million on the basis of the applicable legislation for all entities of the ICBG, lower thresholds have been set in relation to the type of company and the amount of own funds.

The Policy has been implemented by all Group companies and is published on the Iccrea Banca website.

In order to strengthen the oversight of this type of transaction and ensure the continuous monitoring of developments and the total value of exposures in relation to the limits established by the Parent Company, during the first half - on the occasion of the annual update of the Group Risk Appetite Statement - the scope of the indicators included therein was expanded by introducing, among others, an indicator measuring exposures to related parties and connected parties, operationally implemented at both a consolidated level and the individual level of the Group banks.

The results of the monitoring activities are included in the periodic reporting to the corporate bodies produced for RAF/RAS purposes on a quarterly basis.

As far as transactions with related parties are concerned, during the period no positions associated with atypical or unusual transactions emerged whose significance or scale might have raised concerns about the integrity of the company's financial position.

Part H - "Transactions with related parties" in the notes to the financial statements provides information on the remuneration paid to directors, members of the Board of Auditors, the General Manager and key management personnel and loans and guarantees granted, in compliance with Article 136 of the Consolidated Banking Act.

Mutual banks under administration

- At June 30, 2020, 14 of the 136 affiliated banks were under administration (compared with 12 out of 140 at December 31, 2019). Of the 12 affiliated banks that as of December 31, 2019 had been in a situation of "critical" risk, three were already involved in mergers implemented in the initial months of 2020, thereby resolving the issues. Two affiliated banks received capital support through the Group's cross-guarantee scheme.
- The risk class migrations that occurred during the period that also involved a change in management status (from ordinary to coordinated or administration) are mainly attributable to the following factors:
- imbalances in profitability as at June 2020, with the situation deteriorating compared with that recorded at December 2019, accompanied by the impact of the pandemic on operating results, which has also been reflected in the assessment of cost of risk in the half-year report;
- the application of new, more restrictive standard thresholds concerning critical aspects.

The Parent Company, in compliance with the provisions of the Cohesion Contract and the Group policy on the Early Warning System, performed functional technical analyzes to identify a path for overcoming critical problems and define the consequent corrective measures, to be implemented in certain cases through mergers;

Inspections performed/planned by supervisory authorities

The supervisory authorities conducted an inspection at Iccrea Banca SpA that was completed in December 2019 concerning the operation of Group governance at the consolidated level, with particular regard to the conflict of interest management system, as well as the adequacy and effective implementation of the risk management framework.

Of the issues under examination, the authorities positively assessed efforts to build an adequate organizational framework for the Iccrea Cooperative Banking Group, although the implementation of certain specific areas of the Group's internal rules is still ongoing and inherently connected with the development and activation of the new Group internal regulatory arrangements and the implementation of the related tools and processes.

In the first half of 2020, a Bank of Italy inspection of the Group's AML function was also completed, the results of which were notified on August 4, 2020. In this regard, despite the substantial compliance with the new organizational and AML risk governance models adopted by the Parent Company and implemented by the Board of Directors, the authorities formally noted critical management issues but did not find substantive instances of sanctionable non-compliance, reflecting the need for the Parent Company to continue to pay keen attention to developments that that have affected, including recently, the governance and management of a number of mutual banks, and to take swift action to complete the actions already correctly launched in order to make them fully operational, with particular regard to the refinement and strengthening of processes and procedures, including applications.

The Comprehensive Assessment for the Group in was begun in August 2020 and is still under way.

13. SUBSEQUENT EVENTS

Definitive exit from ICBP

On August 7, 2020, in line with the strategy of rationalizing equity investments in non-strategic companies, the sale to Equinova of the shares held by Iccrea Banca in Depobank, representing approximately 0.5% of the Company's capital, was finalized for a total of about €1.4 million, with a positive impact on the performance and the financial position of the Group linked to the capital gain recognized (equal to about €0.6 million before tax).

With this transaction, Iccrea Banca has definitively exited the capital of the former ICBPI, also due to the sale of Nexi shares carried out in 2019.

NPE reduction

Continuing with the implementation of the de-risking program aimed at achieving a significant reduction in the Group's NPEs, in the first half of 2020 the ICBG initiated the structuring of a further multi-originator securitization involving a number of portfolios of receivables in respect of mortgage loans and unsecured loans to debtors classified as bad loans (the GACS IV operation), whose senior class is eligible for admission to the GACS state guarantee on the liabilities issued. In line with the market best practice for such transactions and with the previous "BCC NPLs 2018", "BCC NPLs 2018-2" and "BCC NPLs 2019" operations, the transaction provides for the assignment without recourse of the exposures to a securitization vehicle company established pursuant to Law 130/1999. The vehicle will finance the price of the sale through the issue of asset-backed securities.

The Parent Company will participate in the transaction both as transferor and as promoter and joint arranger (together with JP Morgan Securities Limited). The receivables were originated by about 90 banks of the ICBG as well as from a number of non-Group banks, with an estimated gross exposure of over €2 billion being assigned.

For the purpose of complying with the obligation to retain a net financial interest in the operation of 5%, as per Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of December 12, 2017 laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU, Regulation (EC) No. 1060/2009 and Regulation (EU) No. 648/2012, the banks have subscribed – and undertake to retain for the entire duration of the operation – a share of at least 5% in the nominal value of each tranche of securities issued within the scope of the operation (the “vertical slice” approach). In order to meet the requirements for the accounting and prudential deconsolidation of the bad loans at the individual transferor and consolidated levels, the mezzanine and junior securities will be placed with third-party investors independent of the ICBG (without prejudice to the requirement to retain a share equal to at least 5% of the nominal value for the purposes of compliance with the retention rule).

The closing of the transaction which, depending on the target specified by the Parent Company, could involve non-performing exposures with a total value of about €1.7 billion, is expected to occur by the end of 2020, taking account of prevailing market conditions, making it possible to further reduce the Group risk levels thanks to the further decline in the NPL ratio.

Covered bond transaction

In light of the establishment of the ICBG and in the context of the planning of activities functional to it, the creation of a Covered Bank Bond Program was identified as a major additional funding channel that had previously not been available due to the capital requirements imposed on mutual bank issuers and the lack of adequate amounts of eligible loans on the part of Iccrea Banca.

In addition to reducing funding costs, the main benefits of the establishment of the program include the optimization of ICBG assets and structural liquidity profiles, the possibility, as a centralized treasury instrument, to distribute new funding in accordance with the needs of the affiliated banks and the possibility of improving the correlation between the maturity profiles of loans and funding.

The Parent Company will participate in the transactions as both the issuer and as promoter and joint arranger (together with Barclays).

Given the above, a specific project was launched to set up the first ICBG Covered Bond program, divided into the following phases:

- identification of the main counterparties of the program and its main characteristics;
- definition and implementation of the organizational and IT process supporting the operation;
- definition of the legal and financial structure of the operation and of the first group of assignor mutual banks;
- program implementation and first issue.

The conclusion of the program and the first issue are expected to occur by the end of 2020, taking account of prevailing market conditions.

ATTACHMENT – RECONCILIATION OF EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH GROUP EQUITY AND NET PROFIT

€/thousands	SHARE CAPITAL	RESERVES	VALUTATION RESERVES	EQUITY INSTRUMENTS	NET PROFIT	SHAREHOLDERS' EQUITY 30/6/2020
Iccrea Banca SpA financial statements	**1,401,045**	**253,996**	**45,330**	**-**	**(6,207)**	**1,694,164**
Net profit of consolidated companies	913,305	8,324,694	183,315	30,139	174,954	**9,626,407**
Elimination of Group company dividends		45,215			(45,215)	**-**
Net profit of companies accounted for using equity method		(36,846)	4,308		193	**(32,345)**
Adjustment of intercompany writedowns (revaluations)		(26,534)			26,534	**-**
Goodwill		15,564				**15,564**
Other consolidation adjustments		(1,047,984)	(9,159)		(28,135)	**(1,085,279)**
Consolidated shareholders' equity	**2,381,260**	**7,528,137**	**223,809**	**30,139**	**126,626**	**10,289,970**
Non-controlling interests	**66,911**	**32**	**15**		**4,502**	**71,459**
Group shareholders' equity	**2,314,349**	**7,528,105**	**223,794**	**30,139**	**122,124**	**10,218,510**

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		30/6/2020	31/12/2019
10.	Cash and cash equivalents	709,125	956,482
20.	Financial assets measured at fair value through profit or loss	2,058,398	1,940,080
	a) financial assets held for trading	345,863	205,225
	b) financial assets designated as at fair value	388,025	367,476
	c) other financial assets mandatorily measured at fair value	1,324,510	1,367,379
30.	Financial assets measured at fair value through other comprehensive income	9,352,081	9,109,726
40.	Financial assets measured at amortized cost	148,767,792	135,869,471
	a) due from banks	8,984,233	8,405,860
	b) loans to customers	139,783,559	127,463,611
50.	Hedging derivatives	16,437	17,816
60.	Value adjustments of financial assets hedged generically (+/-)	227,683	139,945
70.	Equity investments	107,492	88,893
90.	Property, plant and equipment	2,798,679	2,842,541
100.	Intangible assets	150,459	146,462
	- goodwill	25,611	25,868
110.	Tax assets	2,099,718	2,135,149
	a) current	434,117	432,725
	b) deferred	1,665,601	1,702,424
120.	Non-current assets and disposal groups held for sale	28,175	33,856
130.	Other assets	2,146,687	2,250,045
	Total assets	**168,462,726**	**155,530,466**

Liabilities and shareholders' equity		30/6/2020	31/12/2019
10.	Financial liabilities measured at amortized cost	152,889,943	140,832,997
	a) due to banks	29,832,621	18,873,746
	b) due to customers	108,461,986	105,581,113
	c) securities issued	14,595,336	16,378,138
20.	Financial liabilities held for trading	305,106	163,728
30.	Financial liabilities designated as at fair value	7,393	11,461
40.	Hedging derivatives	446,689	321,431
50.	Value adjustments of financial liabilities hedged generically (+/-)	(1,298)	(825)
60.	Tax liabilities	103,975	105,945
	a) current	26,899	19,113
	b) deferred	77,076	86,832
80.	Other liabilities	3,620,672	3,111,184
90.	Employee termination benefits	299,320	306,254
100.	Provisions for risks and charges	500,957	445,700
	a) commitments and guarantees issued	206,513	205,309
	c) other provisions for risk and charges	294,444	240,391
120.	Valuation reserves	223,794	254,511
140.	Equity instruments	30,139	30,139
150.	Reserves	8,592,318	8,390,589
160.	Share premium reserves	148,039	146,702
170.	Share capital	2,314,349	2,313,691
180.	Treasury shares (-)	(1,212,252)	(1,212,256)
190.	Non-controlling interests (+/-)	71,459	70,737
200.	Net profit (loss) for the period (+/-)	122,123	238,478
	Total liabilities and shareholders' equity	**168,462,726**	**155,530,466**

CONSOLIDATED INCOME STATEMENT

		30/6/2020	30/6/2019
10.	Interest and similar income	1,459,401	1,525,819
20.	Interest and similar expense	(248,434)	(307,646)
30.	**Net interest income**	**1,210,967**	**1,218,173**
40.	Fee and commission income	664,777	701,256
50.	Fee and commission expense	(60,596)	(95,233)
60.	**Net fee and commission income (expense)**	**604,181**	**606,023**
70.	Dividends and similar income	4,967	3,582
80.	Net gain (loss) on trading activities	9,473	10,763
90.	Net gain (loss) on hedging activities	(2,167)	(1,059)
100.	Net gain (loss) on the disposal or repurchase of:	219,039	91,786
	a) financial assets measured at amortized cost	166,127	61,529
	b) financial assets measured at fair value through other comprehensive income	52,634	29,268
	c) financial liabilities	278	989
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	(12,925)	30,784
	a) financial assets and liabilities measured at fair value	(1,707)	4,427
	b) other financial assets mandatorily measured at fair value	(11,218)	26,357
120.	**Gross income**	**2,033,535**	**1,960,051**
130.	Net losses/recoveries for credit risk in respect of:	(387,495)	(261,307)
	a) financial assets measured at amortized cost	(377,813)	(263,657)
	b) financial assets measured at fair value through other comprehensive income	(9,682)	2,350
140.	Gains/losses from contractual modifications without derecognition	(2,010)	(649)
150.	**Net income (loss) from financial operations**	**1,644,030**	**1,698,095**
180.	**Net income (loss) from financial and insurance operations**	**1,644,030**	**1,698,095**
190.	Administrative expenses:	(1,472,317)	(1,522,098)
	a) personnel expenses	(833,691)	(826,810)
	b) other administrative expenses	(638,626)	(695,288)
200.	Net provisions for risks and charges	(48,053)	(1,486)
	a) commitments and guarantees issued	(3,970)	9,697
	b) other net provisions	(44,083)	(11,183)
210.	Net adjustments of property, plant and equipment	(93,393)	(84,802)
220.	Net adjustments of intangible assets	(9,783)	(8,442)
230.	Other operating expenses/income	165,747	158,412
240.	**Operating costs**	**(1,457,799)**	**(1,458,416)**
250.	Profit (loss) from equity investments	193	2,948
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(10,775)	(13,888)
270.	Goodwill impairment	(259)	-
280.	Profit (loss) from disposal of investments	(310)	3,180
290.	**Profit (loss) before tax on continuing operations**	**175,080**	**231,919**
300.	Income tax expense from continuing operations	(48,455)	(50,540)
310.	**Profit (loss) after tax on continuing operations**	**126,625**	**181,379**
320.	Profit (loss) after tax on discontinued operations	-	-
330.	**Net profit (loss) for the period**	**126,625**	**181,379**
340.	Net profit (loss) for the period – non-controlling interests	4,502	2,760
350.	**Net profit (loss) for the period – shareholders of the Parent Company**	**122,123**	**178,619**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		30/6/2020	30/6/2019
10.	**Net profit (loss) for the period**	**126,625**	**181,379**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(1,694)**	**(17,242)**
20.	Equity securities designated as at fair through other comprehensive income	(1,438)	1,787
70.	Defined-benefit plans	(256)	(19,023)
	Other comprehensive income net of taxes recyclable to profit or loss	**(30,377)**	**226,983**
120.	Cash-flow hedges	(5,160)	430
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	(24,701)	224,131
160.	Share of valuation reserves of equity investments accounted for with equity method	(516)	2,447
170.	**Total other comprehensive income net of taxes**	**(32,071)**	**209,741**
180.	**Comprehensive income (Item 10+170)**	**94,553**	**391,120**
190.	**Comprehensive income pertaining to non-controlling interests**	**4,045**	**3,452**
200.	**Comprehensive income pertaining to shareholders of the Parent Company**	**90,508**	**387,668**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2020

				Allocation of net profit of previous period		Change in the period										
							Equity transactions									
	As at 31/12/2019	Change in opening balance	As at 1/1/2020	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity holdings	Comprehensive income at 30/6/2020	Shareholders' Equity at 30/6/2020	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	2,380,125		2,380,125				4,138	(3,988)							2,380,275	2,314,349	65,926
b) other shares	985		985												985		985
Share premium reserve	151,077		151,077	(331)		(55)	1,686								152,377	148,039	4,338
Reserves:																	
a) earnings	8,418,939		8,418,939	211,698		(6,892)									8,623,746	8,619,488	4,256
b) other	(36,360)		(36,360)			626									(35,734)	(27,172)	(8,562)
Valuation reserves	254,982		254,982			898								(32,071)	223,809	223,794	15
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,212,256)		(1,212,256)				1,587	(1,583)							(1,212,252)	(1,212,252)	
Net profit (loss) for the period	244,963		244,963	(211,367)	(33,596)									126,625	126,625	122,123	4,502
Total shareholders' equity	**10,232,594**		**10,232,594**		**(33,596)**	**(5,423)**	**7,411**	**(5,571)**						**94,553**	**10,289,969**	**10,218,510**	**71,459**
Shareholders' equity pertaining to shareholders of Parent Company	**10,161,857**		**10,161,857**		**(29,787)**	**(6,416)**	**7,918**	**(5,571)**						**90,508**	**10,218,510**		
Shareholders' equity pertaining to non-controlling interests	**70,737**		**70,737**		**(3,809)**	**993**	**(508)**							**4,045**	**71,459**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2019

				Allocation of net profit of previous period			Change in the period										
								Equity transactions									
	As at 31/12/2018	Change in opening balance	As at 1/1/2019	Reserves	Dividends and other destinations	Effect of formation of ICBG at 1/1/2019	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 30/6/2019	Shareholders' Equity at 30/6/2019	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,257,242		1,257,242			892,309		255,336	(7,832)						2,397,055	2,315,758	81,297
b) other shares	985		985												985	-	985
Share premium reserve	10,753		10,753			142,003	(2,338)								150,418	146,014	4,404
Reserves:																	
a) earnings	315,855		315,855	4,739		8,054,448	(646)								8,374,397	8,376,453	(2,056)
b) other						(24,435)	5,869								(18,566)	(9,963)	(8,603)
Valuation reserves	44,064		44,064			(88,163)	5,055							209,741	170,697	171,453	(756)
Equity instruments						30,139									30,139	30,139	-
Treasury shares	(4,608)		(4,608)			(836,531)			(250,201)						(1,091,340)	(1,091,340)	-
Net profit (loss) for the period	7,502		7,502	(4,739)	(2,763)									181,379	181,379	178,619	2,760
Total shareholders' equity	**1,631,794**		**1,631,794**		**(2,763)**	**8,169,769**	**7,940**	**255,336**	**(258,033)**					**391,120**	**10,195,164**	**10,117,133**	**78,031**
Shareholders' equity pertaining to shareholders of Parent Company	**1,538,916**		**1,538,916**		**(2,763)**	**8,188,319**	**7,690**	**255,336**	**(258,033)**					**387,668**	**10,117,133**		
Shareholders' equity pertaining to non-controlling interests	**92,878**		**92,878**			**(18,549)**	**250**							**3,452**	**78,031**		

The columns "As at 31/12/2018", "As at 1/1/2019" and "Allocation of net profit of previous period" refer to the former Iccrea Banking Group. The balance sheet figures at January 1, 2019 of the mutual banks and the other entities of the Iccrea Cooperative Banking Group are reported in the column "Effect of formation of ICBG at 1/1/2019".

CONSOLIDATED STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/6/2020	30/6/2019
A. OPERATING ACTIVITIES		
1. Operations	**671,034**	**363,104**
- net profit (loss) for the period (+/-)	126,625	181,379
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	2,254	(12,415)
- gains (losses) on hedging activities (-/+)	5,389	1,519
- net losses/recoveries on impairment (+/-)	354,948	261,307
- net adjustments of property, plant and equipment and intangible assets (+/-)	103,435	93,243
- net provisions for risks and charges and other costs/revenues (+/-)	44,195	13,116
- taxes, duties and tax credits to be settled (+/-)	45,129	36,699
- other adjustments (+/-)	(10,939)	(211,744)
2. Net cash flows from/used in financial assets	**(13,481,107)**	**(1,109,861)**
- financial assets held for trading	(130,545)	(96,976)
- financial assets measured at fair value	(20,548)	(426,952)
- other assets mandatorily measured at fair value	30,522	5,793
- financial assets measured at fair value through other comprehensive income	(276,395)	5,215,186
- financial assets measured at amortized cost	(13,122,049)	(5,097,945)
- other assets	37,907	(708,967)
3. Net cash flows from/used in financial liabilities	**12,662,859**	**726,592**
- financial liabilities measured at amortized cost	12,056,945	1,127,752
- financial liabilities held for trading	141,379	71,031
- financial liabilities designated as at fair value	(4,068)	(21,853)
- other liabilities	468,603	(450,338)
Net cash flows from/used in operating activities	**(147,213)**	**(20,165)**
B. INVESTING ACTIVITIES		
1. Cash flow from	**35,894**	**31,100**
- sales of equity investments	509	-
- dividends on equity investments	4,967	3,582
- sales of property, plant and equipment	21,804	27,518
- sales of intangible assets	8,614	-
2. Cash flow used in	**(102,445)**	**(115,364)**
- purchase of equity investments	(16,019)	-
- purchases of property, plant and equipment	(66,915)	(94,296)
- purchases of intangible assets	(19,511)	(21,069)
Net cash flows from/used in investing activities	**(66,551)**	**(84,264)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	4	(250,201)
- issues/purchases of equity instruments	-	226,917
- dividend distribution and other	(33,596)	(2,763)
Net cash flows from/used in investing activities	**(33,592)**	**(26,047)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(247,357)**	**(130,476)**

Key
(+) generated
(-) used in

RECONCILIATION

	30/6/2020	30/6/2019
Cash and cash equivalents at beginning of period	956,482	129,087
Effect of formation of ICBG at 1/1/2019		808,044
Net increase/decrease in cash and cash equivalents	(247,357)	(130,476)
Cash and cash equivalents: effect of exchange rate changes	-	-
Cash and cash equivalents at end of period	709,125	806,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A
Accounting policies

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the consolidated interim financial statements of the Iccrea Cooperative Banking Group have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS - IC), endorsed by the European Commission and in force as of the reporting date.

The IASs/IFRSs have also been applied in accordance with the "Conceptual Framework for Financial Reporting" (the Framework), with particular regard to the key principle of the prevalence of substance over form, as well as the concepts of relevance and materiality of information.

These financial statements are in conformity with the provisions of IAS 34 Interim Financial Reporting and have been prepared using the format and main schedules provided for in Circular no. 262 of December 22, 2005 – 6th update of November 30, 2018 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

The consolidated interim financial statements were prepared using the same accounting standards as those used for the financial statements at December 31, 2019.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2020:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2075/2019	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020.
551/2020	**Amendments to IFRS 3: Business Combinations** The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes: – clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; – remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; – add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; – narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; – add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.	Annual reporting periods beginning on or after January 1, 2020
2104/2020	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of "material" with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.	Annual reporting periods beginning on or after January 1, 2020
34/2020	**Amendments to IFRS 9, IAS 39 and IFRS 7** The amendments concern the requirements for hedge accounting and also have an impact for entities that have elected to continue applying the hedge accounting model under IAS 39. The IASB has amended the specific accounting requirements so that entities apply these requirements assuming that the benchmark interest rate on which the hedged cash flows and the cash flows of the hedging instrument are based does not change due to the uncertainties associated with the benchmark interest rate reform. The changes apply to all hedging relationships that are directly affected by the benchmark interest rate reform. The amendments seek to avoid the interruption of existing cash flow and fair value hedging relationships directly impacted by the reform, which in the absence of this relief would give rise to hedge ineffectiveness and potential hedge accounting failures following the replacement of IBOR with alternative benchmarks. These issues could have given rise to large reclassifications to profit or loss of cash flow hedge reserves and to the termination of hedge accounting for fair value hedges of fixed-rate debt.	Annual reporting periods beginning on or after January 1, 2020

The amendments and additions provided for in the endorsement regulations have not had a material impact on the financial position or performance of the Group.

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

<table>
<tr><th>ENDORSEMENT REGULATION</th><th>IAS/IFRS AND SHORT DESCRIPTION</th><th>ENTRY INTO FORCE</th></tr>
<tr><td>To be determined</td><td>Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions
The amendments seek to provide lessees relief from the application of IFRS 16 guidelines on accounting for lease modifications with regard to rent concessions granted as a direct consequence of the COVID-19 pandemic.
As a practical expedient, a lessee may elect not to assess whether a rent concession granted by a lessor in connection with COVID-19 is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession connected with COVID-19 the same way it would account for the change applying IFRS 16 if the change were not a lease modification.
The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:
– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
– any reduction in lease payments affects only payments originally due on or before June 30, 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
– there is no substantive change to other terms and conditions of the lease.</td><td>Annual reporting periods beginning on or after June 1, 2020. Early application is permitted.</td></tr>
<tr><td>To be determined</td><td>Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current
The amendments are intended to clarify one of the criteria of IAS 1 for the classification of liabilities as non-current, namely the requirement that an entity have the right to defer settlement of the liabilities for at least 12 months after the end of the reporting period. The amendments include:
– an indication that the right to defer settlement must exist at the end of the reporting period;
– a clarification that classification is unaffected by management's expectations about whether the entity will exercise its right to defer settlement;
– a clarification of how the terms of a liability may affect classification; and
– a clarification of the requirements for classification of liabilities that the entity intends to settle or could settle with the issue of its own equity instruments.</td><td>Annual reporting periods beginning on or after January 1, 2022.</td></tr>
<tr><td>To be determined</td><td>Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020
The amendments are narrow-scope changes to three standards and annual improvements to the following standards:
– IFRS 1;
– IFRS 9;
– IFRS 16;
– IAS 41.</td><td>Annual reporting periods beginning on or after January 1, 2022.</td></tr>
<tr><td>To be determined</td><td>IFRS 17 Insurance Contracts
The standard seeks to improve investor understanding of exposures to the risk, profitability and financial position of insurers.
On June 25, 2020, the IASB published the following amendments to IFRS 17:
– a reduction in costs with the simplification of certain requirements of the accounting standards;
– the simplification of statements of financial performance;
– the deferral of the effective date until 2023.
The IASB amended the previous standard on insurance contracts, 'IFRS 4, extending the Temporary Exemption from applying IFRS 9 from January 1, 2021 to January 1, 2023.</td><td>Annual reporting periods beginning on or after January 1, 2023.</td></tr>
</table>

Rules issued by the IASB that have not yet entered force are not expected to have an impact on the financial position and performance of the Group, with the exception of indirect impacts from the application of IFRS 17 to insurance companies accounted for using the equity method.

SECTION 2: GENERAL PREPARATION PRINCIPLES

The consolidated interim financial statements, prepared in condensed form, 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, the notes to the financial statements an associated comparative information, along with the report on operations and the performance and financial position of the Iccrea Cooperative Banking Group.

In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency.

Unless otherwise specified, the figures in the financial statements and the explanatory notes are expressed in thousands of euros.

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

Reference has also been made to documentation produced by the European Securities and Markets Authority (ESMA) that refers to the application of specific provisions of the IFRSs, with specific regard to accounting for the effects of the COVID-19 pandemic (ESMA statements of March 25 and May 20, 2020).

In compliance with the provisions of IAS 1, these consolidated interim financial statements have been prepared on a going-concern basis. In this regard, the Directors are not aware of any significant uncertainties, events or conditions that could warrant serious concern about the Group's ability to continue to operate as a going concern in the foreseeable future, taking particular account of the system of cross-guarantees on which the Cooperative Banking Group is based, for which a discussion is provided in the report on operations.

Content of the financial statements and the explanatory notes

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), earnings reserves, capital reserves and valuation reserves for assets or liabilities, equity instruments and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders' equity.

Statement of cash flows

The statements of cash flows for the present period 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.

Content of the notes to the financial statements

The notes to the financial statements include the information required by international accounting standards, with particular regard to IAS 34 Interim Financial Reporting, using the main schedules provided for in Bank of Italy Circular no. 262/2005 – 6th update of November 30, 2018.

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets (e.g. goodwill);
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- in the determination of discount rates for lease liabilities;
- the quantification of provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. More specifically:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

The scope of consolidation of the Iccrea Cooperative Banking Group includes:

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 136 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Please see *Assessments and significant assumptions in determining the scope of consolidation* in section 2 below for a discussion of the assumptions underlying the determination of the scope of consolidation and the associated consolidation methods.

The following table reports the companies included in the scope of consolidation of the Iccrea Cooperative Banking Group.

1. COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

		Headquarters	Type of relationship	Equity investment		% share of votes
			(A)	Investor	% holding	(B)
A.	**Consolidated on a line-by-line basis**					
1	Iccrea Banca S.p.A.	Rome				
2	BCC di Bari S.C.	Bari				
3	Banca dell'Elba - Credito Cooperativo S.C.	Portoferraio				
4	Credito Cooperativo Mediocrati S.C.	Rende				
5	BCC di Buccino e dei Comuni Cilentani S.C.	Agropoli				
6	Credito Cooperativo Romagnolo - BCC di Cesena e Gatteo - S.C.	Cesena				
7	Emil Banca - Credito Cooperativo S.C.	Bologna				
8	Banca Cremasca e Mantovana - Credito Cooperativo S.C.	Crema				
9	Banca della Marca Credito Cooperativo S.C.	Orsago				
10	Credito Cooperativo Friuli (CrediFriuli) S.C.	Udine				
11	BCC dell'Adriatico Teramano S.C.	Atri				
12	Banca di Taranto – Banca di Credito Cooperativo S.C.	Taranto				
13	Banca del Catanzarese - Credito Cooperativo S.C.	Marcellinara				
14	BCC di Massafra S.C.	Massafra				
15	BCC di Cagliari S.C.	Cagliari				
16	Banca di Andria Di Credito Cooperativo S.C.	Andria				
17	BCC Agrigentino S.C.	Agrigento				
18	BCC di Napoli S.C.	Naples				
19	BCC di Putignano S.C.	Putignano				
20	Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	Pistoia				
21	BCC di Borghetto Lodigiano S.C.	Borghetto Lodigiano				
22	Banca di Ancona e Falconara Marittima Credito Cooperativo S.C.	Ancona				
23	BCC di Montepaone S.C.	Montepaone				
24	BCC di Basciano S.C.	Basciano				
25	Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	Vallo Della Lucania				
26	BCC della Valle del Trigno S.C.	San Salvo				
27	Valpolicella Benaco Banca Credito Cooperativo S.C.	Costermano Sul Garda				
28	Banca Veronese Credito Cooperativo di Concamarise S.C.	Bovolone				
29	Banca Centropadana Credito Cooperativo S.C.	Lodi				
30	Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	Firenzuola				
31	BCC di Roma S.C.	Rome				
32	BCC Brianza e Laghi S.C.	Lesmo				
33	BCC di Altofonte e Caccamo S.C.	Altofonte				
34	Banca di Anghiari E Stia - Credito Cooperativo S.C.	Anghiari				
35	BCC di Avetrana S.C.	Avetrana				

		Headquarters	Type of relationship	Equity investment		% share of votes
			(A)	Investor	% holding	(B)
36	BCC Pordenonese e Monsile S.C.	Azzano Decimo				
37	Banca di Pescia e Cascina - Credito Cooperativo S.C.	Pescia				
38	BCC di Arborea S.C.	Arborea				
39	BCC Campania Centro - Cassa Rurale e Artigiana S.C.	Battipaglia				
40	BCC di Bellegra S.C.	Bellegra				
41	Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	Binasco				
42	Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	Brendola				
43	BCC di Busto Garolfo e Buguggiate S.C.	Busto Garolfo				
44	BCC di Buonabitacolo S.C.	Buonabitacolo				
45	Banca di Verona Credito Cooperativo Cadidavid S.C.	Verona				
46	Cassa Rurale e Artigiana di Cantù BCC S.C.	Cantù				
47	BCC di Capaccio Paestum e Serino S.C	Capaccio Paestum				
48	BCC Abruzzese - Cappelle Sul Tavo S.C.	Cappelle Sul Tavo				
49	BCC del Basso Sebino S.C.	Capriolo				
50	BCC di Carate Brianza S.C.	Carate Brianza				
51	Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	Caravaggio				
52	BCC di Terra D'Otranto S.C.	Carmiano				
53	Banca Alpi Marittime Credito Cooperativo Carrù S.C.	Carrù				
54	BCC di Venezia, Padova E Rovigo - Banca Annia S.C.	Cartura				
55	BCC di Milano S.C.	Carugate				
56	Credito Padano Banca di Credito Cooperativo S.C.	Cremona				
57	Banca dei Sibillini - Credito Cooperativo Di Casavecchia S.C.	Pieve Torina				
58	Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	Reggello				
59	Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	Castellana Grotte				
60	BCC di Castiglione Messer Raimondo e Pianella S.C.	Castiglione Messer Raimondo				
61	Banca del Piceno Credito Cooperativo S.C.	Acquaviva Picena				
62	Cereabanca 1897 Credito Cooperativo S.C.	Cerea				
63	Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	Chiusi				
64	BCC di Cittanova S.C.	Cittanova				
65	BCC dell'Oglio e Del Serio S.C.	Calcio				
66	Banca della Valsassina Credito Cooperativo S.C.	Cremeno				
67	BCC di Fano S.C.	Fano				
68	BCC di Alba, Langhe, Roero e Del Canavese S.C.	Alba				
69	Credito Cooperativo Cassa Rurale Ed Artigiana Di Erchie S.C.	Erchie				
70	Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	Faenza				
71	Banca di Filottrano - Credito Cooperativo di Filottrano e Camerano S.C.	Filottrano				
72	BCC di Gaudiano Di Lavello S.C.	Lavello				
73	Banca di Pisa e Fornacette Credito Cooperativo S.C.	Pisa				
74	BCC di Gambatesa S.C.	Gambatesa				
75	BCC Agrobresciano S.C.	Ghedi				
76	BCC del Crotonese - Credito Cooperativo S.C.	Crotone				
77	BCC Basilicata - Credito Cooperativo Di Laurenzana e Comuni Lucani S.C.	Laurenzana				
78	BCC Valle Del Torto S.C.	Lercara Friddi				
79	BCC di Leverano S.C.	Leverano				
80	BCC di Canosa - Loconia S.C.	Canosa Di Puglia				
81	BCC di Lezzeno S.C.	Lezzeno				
82	Chiantibanca - Credito Cooperativo S.C.	Monteriggioni				
83	BCC del Garda - BCC Colli Morenici Del Garda S.C.	Montichiari				
84	BCC di Mozzanica S.C.	Mozzanica				
85	BCC di Marina Di Ginosa S.C.	Ginosa				

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
86 BCC di Nettuno S.C.	Nettuno				
87 BCC del Metauro S.C.	Terre Roveresche				
88 BCC di Ostra e Morro D'alba S.C.	Ostra				
89 BCC di Ostra Vetere S.C.	Ostra Vetere				
90 BCC di Ostuni S.C.	Ostuni				
91 BCC di Oppido Lucano E Ripacandida S.C.	Oppido Lucano				
92 BCC di Pachino S.C.	Pachino				
93 Banca di Udine Credito Cooperativo S.C.	Udine				
94 Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	Paliano				
95 Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	Pietrasanta				
96 Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	Sant'Elena				
97 BCC di Pergola e Corinaldo S.C.	Pergola				
98 BCC Vicentino - Pojana Maggiore S.C.	Pojana Maggiore				
99 BCC di Pontassieve S.C.	Pontassieve				
100 Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
101 BCC di Pratola Peligna S.C.	Pratola Peligna				
102 Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
103 BCC di Recanati e Colmurano S.C.	Recanati				
104 Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	Ripatransone				
105 Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
106 BCC della Provincia Romana S.C.	Riano				
107 BCC di San Biagio Platani S.C.	San Biagio Platani				
108 Banca San Giorgio Quinto Valle Agno - Credito Cooperativo S.C.	Fara Vicentino				
109 Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
110 Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
111 BCC di Santeramo In Colle S.C.	Santeramo In Colle				
112 Banca TEMA - Terre Etrusche e di Maremma S.C.	Orbetello				
113 BCC di Scafati e Cetara S.C.	Scafati				
114 BCC Bergamo e Valli S.C.	Sorisole				
115 BCC di Spinazzola S.C.	Spinazzola				
116 BCC di Staranzano e Villesse S.C.	Staranzano				
117 Banca Centro Credito Cooperativo Toscana - Umbria S.C.	Sovicille				
118 Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia				
119 Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
120 BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
121 BCC della Valle del Fitalia S.C.	Longi				
122 Credito Trevigiano – Banca di Credito Cooperativo - S.C.	Vedelago				
123 Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
124 BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
125 Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
126 BCC Don Stella di Resuttano S.C.	Resuttano				
127 BCC dei Colli Albani S.C.	Genzano Di Rome				
128 BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
129 BCC Mutuo Soccorso di Gangi S.C.	Gangi				
130 Banca San Francesco Credito Cooperativo S.C.	Canicattì				
131 BCC San Giuseppe di Mussomeli S.C.	Mussomeli				
132 BCC S. Giuseppe delle Madonie S.C.	Petralia Sottana				
133 BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
134 BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
135 BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
136 RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				

	Headquarters	Type of relationship	Equity investment		% share of votes
			Investor	% holding	
		(A)			(B)
137 BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	San Marco Dei Cavoti				
138 BCC Risparmio&Previdenza SGRpA	Milan	1	Iccrea Banca S.p.A.	75.00	75.00
139 Iccrea BancaImpresa S.p.A.	Rome	1	Iccrea Banca S.p.A.	99.72	99.72
			BCC Pordenonese e Monsile S.C.	0.03	0.03
			Banca della Marca Credito Cooperativo S.C.	0.00	0.00
			Banca Veronese Credito Cooperativo di Concamarise S.C.	0.01	0.01
			Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	0.00	0.00
			Banca del Piceno Credito Cooperativo S.C.	0.01	0.01
			Chiantibanca - Credito Cooperativo S.C.	0.08	0.08
			BCC di Scafati e Cetara S.C.	0.03	0.03
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.02	0.02
			BCC della Valle del Fitalia S.C.	0.00	0.00
			Banca Alta Toscana Credito Cooperativo S.C.	0.01	0.01
			Banca San Francesco Credito Cooperativo S.C.	0.00	0.00
			BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.02	0.02
			RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	0.01	0.01
140 BCC Factoring S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100.00	100.00
141 Banca Sviluppo S.p.A.	Rome	1	Iccrea Banca S.p.A.	76.52	76.52
			BCC di Roma S.C.	1.44	1.44
			Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	0.91	0.91
			Banca della Marca Credito Cooperativo S.C.	0.88	0.88
			Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	0.84	0.84
			BCC di Alba, Langhe, Roero e Del Canavese S.C.	0.77	0.77
			BCC Pordenonese e Monsile S.C.	0.75	0.75
			Emil Banca - Credito Cooperativo S.C.	0.70	0.70
			Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	0.66	0.66
			Cassa Rurale ed Artigiana di Brendola - Credito Cooperativo	0.56	0.56
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.50	0.50
			BCC di Milano S.C.	0.46	0.46
			Cassa Rurale e Artigiana di Cantù S.C.	0.43	0.43
			BCC di Venezia, Padova E Rovigo - Banca Annia S.C.	0.40	0.40
			Banca Centropadana	0.39	0.39
			BCC di Carate Brianza S.C.	0.38	0.38
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.36	0.36
			Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.35	0.35
			RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	0.33	0.33
			Banca Alta Toscana Credito Cooperativo S.C.	0.32	0.32
			Banca TEMA - Terre Etrusche e di Maremma S.C.	0.32	0.32
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.30	0.30
			Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.28	0.28
			BCC Vicentino - Pojana Maggiore S.C.	0.25	0.25
			BCC Bergamasca e Orobica S.C.	0.25	0.25
			Valpolicella Benaco Banca Credito Cooperativo S.C.	0.24	0.24
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.24	0.24
			Banca Veronese Credito Cooperativo di Concamarise	0.23	0.23
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.23	0.23
			Banca di Verona Credito Cooperativo Cadidavid S.C.	0.21	0.21
			Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	0.20	0.20

	Headquarters	Type of relationship (A)	Equity investment Investor	% holding	% share of votes (B)
			BCC Pescia e Cascina	0.20	0.20
			BCC di Castiglione Messer Raimondo e Pianella S.C	0.18	0.18
			BCC di Busto Garolfo e Buguggiate S.C.	0.18	0.18
			BCC di Fano S.C.	0.18	0.18
			BCC Agrobresciano S.C.	0.17	0.17
			Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.17	0.17
			Credito Cooperativo Friuli (CrediFriuli) S.C.	0.16	0.16
			BCC G. Toniolo di San Cataldo S.C.	0.15	0.15
			BCC di Buccino e dei Comuni Cilentani S.C.	0.14	0.14
			BCCC Anghiari e Stia	0.14	0.14
			Cereabanca 1897 Credito Cooperativo S.C.	0.14	0.14
			BCC Bergamo e Valli S.C.	0.13	0.13
			Banca del Valdarno - Credito Cooperativo S.C.	0.13	0.13
			Credito Cooperativo Mediocrati S.C.	0.12	0.12
			BCC di Pontassieve S.C.	0.12	0.12
			BCC di Staranzano e Villesse S.C.	0.12	0.12
			Banca del Piceno Credito Cooperativo S.C.	0.12	0.12
			BCC del Metauro S.C.	0.11	0.11
			Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.11	0.11
			BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.10	0.10
			Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.10	0.10
			Banca di Udine Credito Cooperativo S.C.	0.10	0.10
			BCC di Pachino S.C.	0.09	0.09
			Banca di Pesaro Credito Cooperativo S.C.	0.09	0.09
			Banca di Credito Cooperativo di Capaccio Paestum e Serino S.C.	0.09	0.09
			BCC Abruzzese - Cappelle Sul Tavo S.C.	0.09	0.09
			BCC di Pergola e Corinaldo S.C.	0.09	0.09
			BCC di Pratola Peligna S.C.	0.09	0.09
			BCC di Santeramo In Colle S.C.	0.08	0.08
			BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.09	0.09
			BCC della Provincia Romana S.C.	0.08	0.08
			Banca San Francesco Credito Cooperativo S.C.	0.08	0.08
			BCC di Triuggio e della Valle del Lambro S.C.	0.08	0.08
			BCC Borghetto Lodigiano	0.07	0.07
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.07	0.07
			Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	0.07	0.07
			Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	0.07	0.07
			BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	0.07	0.07
			BCC di Arborea	0.06	0.06
			BCC del Basso Sebino S.C.	0.06	0.06
			BCC di Leverano S.C.	0.06	0.06
			BCC di Scafati e Cetara S.C.	0.06	0.06
			BCC dei Colli Albani S.C.	0.06	0.06
			BCC di Cittanova S.C.	0.05	0.05
			BCC di Bellegra	0.05	0.05
			BCC di Terra D'Otranto S.C.	0.05	0.05
			BCC Basilicata - Credito Cooperativo Di Laurenzana e Comuni Lucani S.C.	0.05	0.05

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
			BCC di Nettuno S.C.	0.05	0.05
			BCC di Ostra Vetere S.C.	0.05	0.05
			Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.05	0.05
			BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.05	0.05
			BCC degli Ulivi - Terra di Bari S.C.	0.05	0.05
			BCC dell'Adriatico Teramano	0.04	0.04
			BCC del Catanzarese	0.04	0.04
			BCC di Cagliari	0.04	0.04
			BCC Valle del Trigno	0.04	0.04
			BCC del Crotonese - Credito Cooperativo S.C.	0.04	0.04
			BCC di Canosa - Loconia S.C.	0.04	0.04
			Banca dell'Elba - Credito Cooperativo S.C.	0.03	0.03
			BCC di Bari S.C.	0.03	0.03
			BCC di Gambatesa S.C.	0.03	0.03
			BCC Valle Del Torto S.C.	0.03	0.03
			BCC di Avetrana S.C.	0.03	0.03
			BCC di Ostuni S.C.	0.03	0.03
			Credito Cooperativo Cassa Rurale ed Artigiana Di Erchie S.C.	0.03	0.03
			BCC di Gaudiano Di Lavello S.C.	0.03	0.03
			BCC di Marina Di Ginosa S.C.	0.03	0.03
			BCC di Oppido Lucano E Ripacandida S.C.	0.03	0.03
			Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.03	0.03
			BCC di San Biagio Platani S.C.	0.03	0.03
			BCC di Spinazzola S.C.	0.03	0.03
			Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	0.03	0.03
			Banca di Taranto	0.02	0.02
			BCC Massafra	0.02	0.02
			Banca di Andria Di Credito Cooperativo S.C.	0.02	0.02
			BCC Agrigentino	0.02	0.02
			BCC di Montepaone S.C.	0.02	0.02
			BCC di Altofonte e Caccamo	0.02	0.02
			BCC Mutuo Soccorso di Gangi S.C.	0.02	0.02
			BCC Putignano	0.01	0.01
			BCC S. Giuseppe delle Madonie S.C.	0.01	0.01
			BCC di Mozzanica S.C.	0.01	0.01
			BCC Don Stella di Resuttano S.C.	0.01	0.01
			BCC San Giuseppe di Mussomeli S.C.	0.01	0.01
142 Banca Mediocredito del F.V.G. S.p.A.	Udine	1	Iccrea Banca S.p.A.	27.28	27.28
		1	Iccrea BancaImpresa S.p.A.	24.71	24.71
143 BCC Gestione Crediti S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
144 BCC Solutions S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
145 BCC Beni Immobili S.r.l.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
146 BCC Lease S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100.00	100.00
147 BCC CreditoConsumo S.p.A.	Rome	1	Iccrea Banca S.p.A.	96.00	96.00
148 BCC Sistemi Informatici S.p.A.	Milan	1	Iccrea Banca S.p.A.	98.53	98.53
			Iccrea BancaImpresa S.p.A.	0.00	0.00
			Banca Sviluppo S.p.A.	0.00	0.00
149 Coopersystem Societa' Cooperativa	Florence	1	Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.00	5.26

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
			Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.01	5.26
			Chiantibanca - Credito Cooperativo S.C.	0.09	5.26
			Banca del Valdarno - Credito Cooperativo S.C.	0.00	5.26
			Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.01	5.26
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	5.26
			BCC di Pontassieve S.C.	0.00	5.26
			Banca dell'Elba - Credito Cooperativo S.C.	0.01	5.26
			Banca del Valdarno - Credito Cooperativo S.C.	0.08	5.26
			Banca Alta Toscana Credito Cooperativo S.C.	0.40	5.26
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.10	5.26
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.05	5.26
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.01	5.26
			Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	5.26
150 Sigest S.r.l.	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.00	100.00
151 Sinergia - Sistema di Servizi – S.c.a.r.l.	Milan	1	Iccrea Banca S.p.A.	71.46	71.46
			BCC di Milano S.C.	2.92	2.92
			Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	2.33	2.33
			BCC dell'Oglio e Del Serio S.C.	1.75	1.75
			Cassa Rurale - BCC di Treviglio S.C.	1.17	1.17
			Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	1.17	1.17
			BCC Bergamo e Valli S.C.	1.17	1.17
			BCC Brianza e Laghi S.C.	1.17	1.17
			Credito Padano Banca di Credito Cooperativo S.C.	1.17	1.17
			Banca Centropadana Credito Cooperativo S.C.	1.17	1.17
			BCC Patavina	1.17	1.17
			Banca Cremasca e Mantovana - Credito Cooperativo S.C.	1.17	1.17
			Banca Sviluppo	0.61	0.61
			BCC di Carate Brianza S.C.	0.59	0.59
			BCC Pordenonese e Monsile	0.59	0.59
			Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	0.58	0.58
			Cassa Rurale e Artigiana di Cantù BCC S.C.	0.58	0.58
			BCC di Mozzanica S.C.	0.58	0.58
			BCC del Basso Sebino S.C.	0.58	0.58
			BCC Agrobresciano S.C.	0.58	0.58
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.58	0.58
			BCC di Lezzeno S.C.	0.58	0.58
			BCC Bergamasca e Orobica S.C.	0.58	0.58
			Banca Veronese Credito Cooperativo di Concamarise S.C.	0.58	0.58
			Banca della Valsassina Credito Cooperativo S.C.	0.58	0.58
			BCC di Busto Garolfo e Buguggiate S.C.	0.58	0.58
			BCC di Triuggio e della Valle del Lambro S.C.	0.58	0.58
			Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	0.58	0.58
			Banca di Udine Credito Cooperativo S.C.	0.58	0.58
			BCC di Borghetto Lodigiano S.C.	0.58	0.58
			Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.04	0.04
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.03	0.03
			Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	0.02

	Headquarters	Type of relationship	Equity investment		% share of votes
		(A)	Investor	% holding	(B)
			Chiantibanca - Credito Cooperativo S.C.	0.02	0.02
			Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.02	0.02
			Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.02	0.02
			Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.02	0.02
			BCC di Castiglione Messer Raimondo e Pianella S.C.	0.02	0.02
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.02	0.02
			Credito Cooperativo Mediocrati S.C.	0.02	0.02
			BCC del Crotonese - Credito Cooperativo S.C.	0.02	0.02
			Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.02	0.02
			Banca del Catanzarese - Credito Cooperativo S.C.	0.02	0.02
			Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.02	0.02
			Banca Alta Toscana Credito Cooperativo S.C.	0.02	0.02
			BCC S. Giuseppe delle Madonie S.C.	0.02	0.02
			BCC della Provincia Romana S.C.	0.02	0.02
			BCC dei Colli Albani S.C.	0.02	0.02
			BCC di Buccino e dei Comuni Cilentani S.C. e dei Comuni Cilentani S.C.	0.02	0.02
			BCC G. Toniolo di San Cataldo S.C.	0.02	0.02
			Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.02	0.02
			BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.01	0.01
			BCC San Giuseppe di Mussomeli S.C.	0.01	0.01
			BCC di Ostuni S.C.	0.01	0.01
			BCC di Gambatesa S.C.	0.01	0.01
			BCC Don Stella di Resuttano S.C.	0.01	0.01
			BCC di Pachino S.C.	0.01	0.01
			BCC di Cittanova S.C.	0.01	0.01
			BCC Abruzzese - Cappelle Sul Tavo S.C.	0.01	0.01
			BCC di Pratola Peligna S.C.	0.01	0.01
			BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.01	0.01
			Banca San Francesco Credito Cooperativo S.C.	0.01	0.01
			BCC di San Biagio Platani S.C.	0.01	0.01
			BCC Mutuo Soccorso di Gangi S.C.	0.01	0.01
			Banca del Valdarno - Credito Cooperativo S.C.	0.01	0.01
			BCC di Leverano S.C.	0.01	0.01
			BCC Vicentino - Pojana Maggiore S.C.	0.01	0.01
			BCC di Altofonte e Caccamo S.C.	0.01	0.01
			Cereabanca 1897 Credito Cooperativo S.C.	0.01	0.01
			Banca dell'Elba - Credito Cooperativo S.C.	0.01	0.01
			Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.01	0.01
			BCC di Terra D'Otranto S.C.	0.01	0.01
			BCC di Spinazzola S.C.	0.01	0.01
			BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.01	0.01
			BCC degli Ulivi - Terra di Bari S.C.	0.01	0.01
			BCC di Arborea S.C.	0.01	0.01
			Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.01	0.01
			BCC di Nettuno S.C.	0.01	0.01
			BCC di Canosa - Loconia S.C.	0.01	0.01
			BCC di Pontassieve S.C.	0.01	0.01

	Headquarters	Type of relationship (A)	Equity investment: Investor	% holding	% share of votes (B)
			BCC della Valle del Fitalia S.C.	0.01	0.01
			Credito Cooperativo Valdarno Fiorentino Banca Di Cascia S.C.	0.01	0.01
			BCC di Basciano S.C.	0.01	0.01
			BCC della Valle del Trigno S.C.	0.01	0.01
			BCC di Bellegra S.C.	0.01	0.01
			BCC dell'Adriatico Teramano S.C.	0.01	0.01
			Valpolicella Benaco Banca Credito Cooperativo S.C.	0.01	0.01
			Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.01	0.01
			BCC di Montepaone S.C.	0.01	0.01
			Banca di Taranto – Banca di Credito Cooperativo S.C.	0.01	0.01
			BCC Agrigentino S.C.	0.01	0.01
			Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.01	0.01
			BCC di Cagliari S.C.	0.01	0.01
			BCC Pordenonese e Monsile S.C.	0.01	0.01
			Banca della Marca Credito Cooperativo S.C.	0.01	0.01
			BCC di Bari S.C.	0.01	0.01
			BCC di Napoli S.C.	0.01	0.01
			Banca di Andria Di Credito Cooperativo S.C.	0.01	0.01
			BCC di Putignano S.C.	0.01	0.01
			BCC di Buonabitacolo S.C.	0.01	0.01
			BCC di Gaudiano Di Lavello S.C.	0.01	0.01
			BCC di Roma S.C.	0.01	0.01
			Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	0.01	0.01
152 Fondo Securis Real Estate	Rome	4	Iccrea Banca S.p.A.	56.55	56.55
			Iccrea BancaImpresa S.p.A.	21.47	21.47
			BCC Brianza e Laghi S.C.	1.18	1.18
153 Fondo Securis Real Estate II	Rome	4	Iccrea Banca S.p.A.	84.78	84.78
154 Fondo Securis Real Estate III	Rome	4	Iccrea BancaImpresa S.p.A.	34.69	34.69
			Iccrea Banca S.p.A.	54.85	54.85
155 Fondo Il Ruscello	Milan	4	BCC di Milano S.C.	100.00	100.00
156 Fondo Sistema BCC	Rome	4	BCC di Milano S.C.	44.44	44.44
			Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	8.89	8.89
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	29.44	29.44
			BCC Pordenonese e Monsile S.C.	6.67	6.67
			BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	10.56	10.56
157 Asset Bancari V	Rome	4	BCC di Milano S.C.	16.00	16.00
			Banca di Anghiari e Stia - Credito Cooperativo S.C.	16.00	16.00
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	19.33	19.33
			Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	4.00	4.00
			Credito Padano Banca di Credito Cooperativo S.C.	11.33	11.33
			Banca Cremasca e Mantovana - Credito Cooperativo S.C.	26.00	26.00
158 Fondo Platone	Treviso	4	BCC Pordenonese e Monsile S.C.	100.00	100.00
159 Lucrezia Securitisation S.r.l.	Rome	4	Iccrea Banca S.p.A.	0.00	0.00

Key:
A) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.
B) Votes available in ordinary shareholders' meeting.
For the vehicle Lucrezia Securitization S.r.l., the fourth securitization ("Lucrezia 4") was consolidated owing to the substantive control of the cash flows associated with the operation.

2. ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS IN DETERMINING THE SCOPE OF CONSOLIDATION

Introduction

The concept of Cooperative Banking Group was introduced into Italian law with Decree Law 18 of February 14, 2016, ratified with amendments with Law 49 of April 8, 2016, which amended Legislative Decree 385/1993 (the Consolidated Banking Act) with the introduction of Article 37-bis establishing, among other things, that the Parent Company shall exercise management and coordination activities "*on the basis of a Cohesion Contract that ensures the existence of control as defined by the international accounting standards adopted by the European Union.*"

From the point of view of the associated regulation, the provisions of Circular 285, 19th update of November 2, 2016, "implement articles 37-bis and 37-ter of the Consolidated Banking Act concerning the cooperative banking group. They govern the prudential and supervisory requirements to be met by the parent company, the minimum content of the Cohesion Contract, the characteristics of the joint and several guarantee system and the requirements of membership in the group. The cooperative banking group is based on the management and coordination powers of the parent company, defined in the Cohesion Contract agreed between the latter and the affiliated mutual banks, which are intended to ensure the unity of strategic direction and the control system as well as compliance with the prudential provisions applicable to the Group and its members, including by way of measures issued by the Parent Company that are binding on the affiliated banks".

The Cooperative Banking Group, as defined in Bank of Italy Circular 285 - 19th update, is a group of entities affiliated to a central body pursuant to Article 10 of Regulation (EU) no. 575/2013 (the CRR), with the simultaneous presence of a mutual guarantee system. In particular, the definition of Central Body, defined in Article 2, paragraph 4, letter a) of Directive 77/780/EEC, establishes that:

- the commitments of the central body and the affiliated institutions are joint and several liabilities;
- the solvency and liquidity of the central body and of all the affiliated institutions are monitored as a whole on the basis of consolidated accounts.

From the point of view of financial reporting regulations, Law 145 of December 30, 2018 concerning the "State budget for the 2019 fiscal year and the multi-year budget for the 2019-2021 period" (the 2019 Budget Act) amended Legislative Decree 136/2015 "Implementation of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings", with the introduction of Article 2, paragraph 2, letter b) of Directive 86/635/EEC, which governs the consolidated accounts of central bodies.

In particular, Article 1072 of Law 145 of December 30, 2018 amended Article 38 of Legislative Decree 136/2015 with the following paragraph 2-bis: "*In the case of cooperative banking groups pursuant to Article 37-bis of Legislative Decree 385 of September 1, 1993, the parent company and the mutual banks affiliated to it by virtue of the Cohesion Contract shall constitute a single consolidating entity*".

The single consolidating entity represents the community of interests created by the system of cross-guarantees in the context of the Cohesion Contract, aimed at ensuring the financial and governance unity of the Group as a whole.

The explanatory report to the 2019 Budget Act (*Legge di bilancio 2019. Le modifiche approvate dal Senato della Repubblica, 23 dicembre 2018*) summarizes the effects of the aforementioned regulatory change as follows:

- "for the purposes of preparing the consolidated financial statements, the parent company and the banks belonging to the cooperative banking group shall constitute a single consolidating entity";
- "in the preparation of the consolidated financial statements, the accounting items pertaining to the Parent Company and the affiliated banks shall be recognized on a consistent basis".

The regulatory changes introduced in the Italian legal system are consistent with the position expressed by the European Commission in 2006 regarding the adoption of international accounting standards, according to which the obligation to draw up the consolidated financial statements must be determined in accordance with the provisions of the national legislation transposing European directives[21] notwithstanding the provisions of those accounting standards.

An authoritative option has been issued on the consolidation of the financial statements of cooperative banking groups in application of the regulatory and financial reporting provisions described above.

Taking account of the foregoing, in particular:

- the provisions introduced with the 2019 Budget Act that specify the procedures for complying with consolidation requirements in the case of groups of banks affiliated to a central body;
- the provisions of the Consolidated Banking Act, which are important in defining the governance powers of the central body over the affiliated mutual banks, defined in the Cohesion Contract;

[21] European Commission, Agenda Paper for the Meeting of the Accounting Regulatory Committee on 24th November 2006, paragraph 4.3. [… the determination of whether or not a company is required to prepare consolidated accounts will continue to be made by reference to national law transposed from the Seventh Council Directive"].

- that the 2019 Budget Act, in introducing paragraph 2-bis of Article 38 of Legislative Decree 136/2015 (in implementation of Directive 86/635) as a special rule, prevails and specifies the generic reference of Article 37 bis, paragraph 1 of the Consolidated Banking Act to control for the purposes of the accounting standards;

The consolidated financial statements of the Iccrea Cooperative Banking Group have been prepared on the basis of the following procedures:

- the entity required to draw up the consolidated financial statements is represented by the aggregation of the central body and the affiliated mutual banks (hereinafter the "consolidating entity");
- in the consolidated financial statements, the accounting entries of the Parent Company and the affiliated mutual banks are recorded at the same values;
- in the consolidated financial statements, the accounting entries of the Parent Company and the affiliated mutual banks are recorded at the existing value reported in the individual financial statements;
- the provisions of IFRS 10 are applied for the purpose of identifying the scope of consolidation of the consolidating entity (subsidiaries of the Parent Company and the affiliated mutual banks);
- IFRS 3 is applicable only for any business combinations between the single consolidating entity and third parties;
- balance sheet and income statement positions between companies included in the scope of consolidation are eliminated in full;
- Parent Company shares held by the affiliated mutual banks are eliminated in full and accounted for as treasury shares of the consolidating entity.

Scope and methods of consolidation

In view of the foregoing, the scope of consolidation of the Iccrea Cooperative Banking Group includes:

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 136 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Subsidiaries

Subsidiaries are those entities over which the Consolidating Entity has the power to direct the relevant activities as a result of a legal right or a mere situation of fact and is exposed to the variable returns resulting from that power.

More specifically, pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

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

The carrying amount of equity interests in companies either consolidated on a line-by-line basis, held by the Consolidating Entity or other companies within the Group, is eliminated – as the subsidiaries' assets and liabilities are absorbed into those of the Group – offsetting the corresponding percentage of the subsidiaries' equity pertaining to the Group.

Asset and liability items, off-balance sheet transactions, expenses and income, as well as profits and losses which occur between companies falling within the scope of consolidation are eliminated.

Costs and revenues of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenues from a subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 280 "Gain/(loss) from the disposal of investments". Any residual interest held must be measured at fair value as of the date control is lost.

The share pertaining to non-controlling interests is presented on the balance sheet under item 190. "Non-controlling interests", separately from the liabilities and shareholders' equity pertaining to the shareholders of the Parent Company. The portion pertaining to non-controlling interests is also presented separately in the income statement, under item 340 "Profit/(loss) pertaining to non-controlling interests".

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred in order to obtain control of that equity interest, inclusive of ancillary costs, is measured as at the acquisition date.

Changes in interests in a subsidiary that do not entail loss of control are recognized in equity.

Controlling equity investments held for sale are consolidated on a line-by-line basis and reported separately in the financial statements as a disposal group valued as of the reporting date at the lower of carrying amount or fair value less costs to sell.

Non-material subsidiaries are not consolidated.[22] Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Associated companies

Associates are companies in which the Consolidating entity directly or indirectly holds at least 20% of the voting rights or over which, even with a smaller share of the voting rights, it exercises a significant influence, which is defined as the power to participate in determining the financial and operational policies of the associate without having control or joint control.

More specifically, Significant influence is assumed to exist when the parent company:

- directly or indirectly holds at least 20% of the voting rights of another company;
- is able, including through shareholders' agreements, to exercise significant influence through:
  - representation on the company's management body;
  - participation in the process of setting policies, including participation in the decision-making process concerning dividends;
  - the existence of significant transactions;
  - the exchange of management personnel.

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. The carrying amount of the interest is increased or decreased to reflect the share of the post-acquisition profits or losses of the associate and is recognized in the income statement under item 250. "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment. The goodwill associated with an associate or joint venture is included in the carrying amount of the investment and does not undergo separate impairment testing.

Any change in the other comprehensive income relating to these investee companies is presented as part of the comprehensive income of the Group. In addition, if an associated company recognizes a change allocated directly to equity, the Group recognizes its share, where applicable, in the statement of changes in equity.

If the portion of the losses pertaining to the Group equals or exceeds the carrying amount of the investment in the associate, further losses are not recognized unless. there is contractual obligation to cover such losses or in the presence of payments made on behalf of the associate.

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group's interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved. Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

A number of interests of more than 20%, albeit of limited amount, over which the Parent Company does not have the direct or indirect ability to participate in setting management policies are excluded from the scope of consolidation and classified in accordance with the provisions of IFRS 9. Non-material associates are also excluded from the scope of consolidation. Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Joint arrangements

Entities held under joint arrangements are those over which control is shared under a contractual agreement with other investors. More specifically, a joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. Investments in joint arrangements are accounted for using the equity method. At

[22] The scope of consolidation does not include subsidiaries with total assets of less than €10 million, subject to the condition that the total assets of all unconsolidated subsidiaries do not exceed €50 million.

June 30, 2020 the Group had no interests in joint arrangements.

Structured entities

Subsidiaries may also include any “structured entities” in which the voting rights are not deemed significant in assessing control and include special purpose entities and investment funds.

Structured entities are treated as subsidiaries where:

- the Group has the power through contractual rights to direct the relevant activities;
- the Group is exposed to the variable returns arising from such activities.

The structured entities that are consolidated because the Group has the power to govern the relevant activities of the entity as a result of the financial instruments it has subscribed include:

- real estate investment funds;
- special purpose securitization vehicles.

A. Structured entities – Real estate investment funds

In the real estate investment funds, the control relationship takes account of the purpose/scope of the operation and has been deemed to exist in the following cases:

- the involvement of the investor/sponsor in structuring the operation;
- the participation of the Group companies on the committees provided for in the fund’s rules (participants’ advisory committee), which have the power to direct/govern the relevant activities of the fund and/or control the activities of the fund manager;
- the presence of contractual relationships that tie the fund to the Group for the subscription/placement/sale of its units.

The consolidated real estate investment funds are Fondo Securis Real Estate, Fondo Securis Real Estate II, Fondo Securis Real Estate III, Fondo Sistema-BCC, Fondo Asset Bancari V, Fondo Il Ruscello and Fondo Platone.

In view of their business model (real estate) and the composition of their assets, essentially composed of properties measured at market value, these funds have been consolidated, recognizing their assets under property, plant and equipment in the consolidated financial statements, recognizing any increases/decreases under “*Net gain/loss from valuation at fair value of property, plant and equipment*” in the income statement.

B. Structured entities – securitizations

In securitizations, the indicators that a control relationship exists include:

- the involvement of the Group companies in structuring of the operation (originator/investor/servicer/facility provider);
- the subscription of substantially all of the ABSs issued by the SPV by Group companies;
- the purpose/scope of the operation.

The fourth securitization managed by the vehicle Lucrezia Securitisation S.r.l. (the Lucrezia 4 operation) is consolidated in the financial statements, with Iccrea Banca having subscribed all of the notes issued by the vehicle in respect of a securitization originated by mutual banks (BCC Romagnolo, BCC Annia, BCC Patavina, BCC Agrobresciano).

The segregated assets of the Iccrea Sme Cart 2016 S.r.l. operation originated by Iccrea BancaImpresa has been consolidated through consolidation of Iccrea BancaImpresa, which has not derecognized the underlying loans.

3. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

3.1 NON-CONTROLLING INTERESTS, VOTING RIGHTS OF NON-CONTROLLING INTERESTS AND DIVIDENDS DISTRIBUTED TO NON-CONTROLLING INTERESTS

	Non-controlling interests	Non-controlling interest percentage of votes (1)	Dividends distributed to non-controlling interests
1. Banca Mediocredito del F.V.G. S.p.A.	48.45%	48.45%	-
2. BCC Risparmio&Previdenza SGRpA	25.00%	25.00%	3,081
3. Coopersystem Società Cooperativa	99.21%	25.00%	-

(1) Percentage of votes in ordinary shareholders' meeting

4. SIGNIFICANT RESTRICTIONS

There are no significant restrictions as envisaged under IFRS 12, paragraph 13, applicable to the banks and companies that form the area of consolidation of the Iccrea Cooperative Banking Group.

5. OTHER INFORMATION

Data used for consolidation

The accounting data used for line-by-line consolidation are those at June 30, 2020, as approved by the competent bodies of the companies included in the scope of consolidation, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

With regard to the reporting packages of the associated BCC Vita SpA and BCC Assicurazioni S.p.A, in application of the "*deferral approach*" (or *temporary exemption*) provided for under IFRS 9, the companies continue to recognize financial assets and liabilities in accordance with the provisions of IAS 39 pending the entry into force of the new standard on insurance contracts (IFRS 17), which is currently expected to happen in 2023. In accordance with the provisions of Regulation (EU) 2017/1988 of November 3, 2017, the Parent Company has elected to use the temporary exemption from certain provisions of IAS 28, which are indicated in paragraphs 20O and 20P of IFRS 4 and is consequently exempt the use of uniform accounting policies for the two insurance companies in its application of the equity method.

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of these interim financial statements and their approval by the Board of Directors on October 9, 2020, no events occurred that would entail a modification of the financial data approved at that meeting. As regards the events related to the spread of the COVID-19 virus, which are extensively discussed in the report on operations, pursuant to IAS 10, these events are deemed non-adjusting for the purposes of the results presented in these financial statements. At present, no reliable prospective estimates can be produced for their impact on the company business. For more information and an initial assessment of the main areas of impact, please see the discussion in the report on operations.

SECTION 5 – OTHER MATTERS

Consolidated tax mechanism option

Iccrea Banca SpA and the Group subsidiaries belonging to the so-called "direct scope" (the former Iccrea Banking Group) have 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 interim financial statements, prepared in condensed form, have been undergone a limited audit by EY SpA, which has also been engaged to monitor the keeping of the accounts pursuant to Article 14 of Legislative Decree 39/2010. The engagement for the period 2019-2020 was granted in execution of the shareholders' resolution of April 30, 2019.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI Test" - *Solely Payments of Principal and Interest Test*).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale (including trading).

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
  - on the basis of the staging indicator for the loan portfolio;
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a "benchmark test", an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is "not genuine", it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 – Financial assets measured at fair value through profit or loss

Classification

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an "other" business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the "host contract"). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

In accordance with the provisions of IFRS 9, reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

Recognition

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trade date. Financial assets 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.

Measurement

Financial assets measured at fair value through profit or loss 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 at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

For more information on the determination of fair value, please see section A.4 “Fair value disclosures” of Part A of the notes to the financial statements.

Derecognition

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights to the cash flows expire, are extinguished 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 under “Net gain (loss) on trading activities”. The results of the measurement of financial assets designated as at fair value and of those mandatorily measured at fair value are instead recognized under “Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss”, respectively under sub-items “a) financial assets and liabilities designated as at fair value” and “b) other financial assets mandatorily measured at fair value. Dividends from equity instruments held for trading are recognized through profit or loss under “Dividends and similar income” when the right to receive payment is established.

2 – Financial assets measured at fair value through other comprehensive income

Classification

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (the HTCS business model) and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option envisaged under IFRS 9 was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group’s commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

In accordance with the provisions of IFRS 9, reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

Recognition

Financial assets measured at fair value through other comprehensive income 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 revenue determinable at the recognition date, even if settled at a later time.

Measurement

Following initial recognition, financial assets measured at fair value through other comprehensive income, other than equity instruments, 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 profit or loss.

Equity instruments classified in this category under the option provided for by IFRS 9 are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire/are extinguished 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 fair value are recognized in a specific equity reserve until the asset is derecognized. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

Interest calculated on debt instruments using the effective interest method, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value, are recognized under "Interest and similar income".

Writedowns and writebacks for credit risk and the recognition of an impairment loss are recognized under the item " Net losses/recoveries for credit risk in respect of financial assets measured at fair value through other comprehensive income", with a corresponding adjustment of the relevant valuation reserve in equity.

Cumulative gains and losses recognized in other comprehensive income are recognized through profit or loss under item 100 "Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income" on the disposal of the asset.

Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 – Financial assets measured at amortized cost

Classification

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Specifically, this category includes credit exposures to banks (including the central bank) and to customers that, regardless of technical form (bonds, loans, credit lines and deposits), meet the requirements indicated above.

In accordance with the provisions of IFRS 9, reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. This occurs, for example, when a relevant activity is begun or terminated after the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

Recognition

Financial assets are initially recognized at the settlement date for debt securities and at the disbursement date for loans. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenue 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

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

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

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 measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

- stage 1 and 2 including performing financial assets;
- stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses (stage 1);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses (stage 2);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer "significant" in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses (return to stage 1).

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9. The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as "impaired") and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations (stage 3).

Measurement of the financial assets takes account of the best 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.

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire/are extinguished 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 determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset 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 assets and changes in their cash flows.

Transferred financial assets 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.

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts. In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
    - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
    - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Interest on financial assets measured at amortized cost is recognized under "Interest and similar income" in the income statement using the effective interest criterion, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value.

Gains or losses on the financial assets in question are recognized in profit or loss when the assets are derecognized or have incurred an impairment loss.

More specifically, gains or losses deriving from the sale of an asset are, as previously noted, recognized in the income statement under the item "Gain (loss) on the disposal or repurchase of: a) financial assets measured at amortized cost" on the disposal of the asset.

Writedowns and writebacks for credit risk are recognized under "Net losses/recoveries for credit risk in respect of: a) financial assets measured at amortized cost", with a corresponding adjustment of the relevant provision.

4 – Hedging

The Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting for each type of hedge (the "opt-out" option).

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 of hedges permitted under IAS 39 are as follows:

- fair value hedges, which are intended to hedge the exposure to the risk of 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 the risk of changes in the future cash flows on recognized assets or liabilities or on highly probable forecast transactions. 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 establish effective hedging relationships.

Recognition

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. In particular, derivative instruments with a positive fair value are recognized under "Hedging derivatives" on the asset side of the balance sheet, while derivatives with a negative fair value at the reporting date are recognized under "Hedging derivatives" on the liability side of the balance sheet.

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 due to the risk on the hedged item has a corresponding impact on the income statement, where the change in the fair value of the hedging instrument is recognized. 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 in a specific equity reserve in the amount of the effective portion of the hedge and in profit or loss in the amount of the ineffective or overhedging portion. The reserve is reclassified to profit or loss only when the cash flows on the hedged item whose variability is being hedged manifest themselves or in the event the hedging relationship is discontinued in the manner specified for the circumstance that prompted the interruption of the hedge.

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 quantified on the basis of the comparison 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 or extinguished early and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, when it becomes certain that the hedged transaction will no longer be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

The changes in the fair value of the hedged instruments and those used to hedge a fair value hedge transaction are recognized in the income statement under "Net gain (loss) on hedging activities". The ineffective or overhedging portion of the cash flow hedging derivative measured with respect to the hypothetical derivative (hedge ineffectiveness) is also recognized under this item.

5 - Equity investments

Classification

The item includes equity investments in subsidiaries, associates and joint ventures. Immaterial entities[23] are not consolidated. Their exclusion from the scope of consolidation does not have a significant impact on Group equity.

Subsidiaries are those entities over which the investor has the power to direct the relevant activities as a result of a legal right or a mere situation of fact and is exposed to the variable returns resulting from that power.

Pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

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

Joint control is the contractually agreed sharing of control of an arrangement.

Associated companies comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in 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 revenue that are directly attributable to the transaction.

Measurement

Investments in subsidiaries are measured at cost, while investments in associates or joint ventures are measured using the equity method (for more details, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information). 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 through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the accounting standards referred to earlier and by IAS 36, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

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

[23] The scope of consolidation does not include subsidiaries with total assets of less than €10 million, subject to the condition that the total assets of all unconsolidated subsidiaries do not exceed €50 million.

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 IFRS 9, 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 are recognized in the income statement under “Dividends and similar income” when the right to receive payment is established.

Impairment losses on equity investments are recognized in the income statement under the item “Profit (loss) from equity investments”. If the reasons for the impairment loss should be removed following an event occurring after the recognition of the impairment loss, the consequent writebacks are recognized in the income statement (in an amount not exceeding the previous writedowns) under the same item.

The recognition of the income effects in respect of equity investments accounted for using the equity method is discussed in Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information.

6 – Property, plant and equipment

Classification

Property, plant and equipment includes land and buildings used in operations and those held for investment purposes, plant, vehicles, furniture, furnishings and equipment of any kind.

According to IAS 16, buildings used in operations are those held for use in the supply of services or for administrative purposes. Pursuant to IAS 40, investment property includes property held to earn rentals or for capital appreciation or both.

The item also includes assets in accordance with IAS 2 - Inventories, which mainly include assets deriving from the enforcement of guarantees or purchase at auction that the Group intends to sell in the near future without carrying out significant restructuring works and which do not meet the conditions for classification in the previous categories (“for use in operations” or “for investment”). This therefore includes assets acquired following the closure of an impaired credit exposure (for example from acceptance of the asset in lieu of the original performance (“datio in solutum”), from the consolidation of companies acquired as a result of loan restructuring/recovery agreements, the non-exercise of the purchase option in a finance lease or the termination of an impaired lease, etc.).

Where the requirements for the application of IFRS 5 to these assets are not met, the Group normally initially classifies the assets as inventories, subsequent measuring them in accordance with the criteria set out in IAS 2, except in rare cases in which the conditions are met for classification as:

- asset held for use in operations (see IAS 16);
- assets held for investment purposes (see IAS 40), insofar as they are held for the purpose of generating income through the receipt of lease payments or for capital appreciation.

Finally, property, plant and equipment also include the rights of use for assets held under leases (whether finance or operating leases) pursuant to IFRS 16, even though the lessor retains legal ownership of the assets.

Recognition

Property, plant 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 (e.g. extraordinary maintenance costs) 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.

Property, plant and equipment originally held as collateral for credit and acquired in recovery activities carried out on the basis of specific contracts or legal proceedings is recognized when both of the following conditions are met:

- recovery activities have been completed;

- the Group has acquired ownership of the property.

Normally these exchange transactions lack commercial substance as defined in paragraph 24 of IAS 16 and, consequently, the asset is initially recognized at the carrying amount of the asset given up.

In the rare cases where, in an exception to the general principle mentioned above, the enforcement operation has commercial substance, the asset acquired is initially recognized at fair value.

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset is recognized at the time in which the leased asset effectively becomes available for use.

Measurement

Property, plant 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.

For assets purchased and placed in service during the year, the period of depreciation is calculated on the basis of the actual number of days the assets contribute to the production cycle. For assets transferred and/or disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer or disposal.

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.

In accordance with the provisions of paragraph 32 a) of IAS 40, investment property as defined in IAS 40 is valued using the cost model and is depreciated, with the exception of properties deriving from the consolidation of real estate investment funds, which are measured at fair value since they are connected with liabilities that produce a return directly linked to the fair value of the investment property.

Assets classified as inventory are measured at the lower of recognition cost and net realizable value and are not depreciated. The net realizable value is equal to the estimated price for sale in the normal course of business, net of the estimated completion costs and those necessary for the sale of the asset.

Following initial recognition, assets acquired through recovery or enforcement of guarantees in debt collection activities carried out by the Group for impaired loans are measured in accordance with the criteria established for the classification adopted (for use in operations, for investment purposes, inventories).

Right-of-use assets determined in compliance with IFRS 16 are subsequently measured using a cost model, less depreciation and impairment losses, in accordance with IAS 16.

Derecognition

Property, plant 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 of property, plant and equipment measured at cost, with the exception of inventories, is recognized through profit or loss under "Net adjustments of property, plant and equipment".

In the first year, depreciation is recognized in proportion to the period the asset is effectively available for use. For assets sold or otherwise disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer and/or disposal.

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.

Gains (losses) deriving from changes in the fair value of investments deriving from the consolidation of real estate investment funds are recognized in the income statement under "Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets".

Gains and losses deriving from the disposal or decommissioning of property, plant and equipment are determined as the difference between the net sale price and the carrying amount of the asset. They are recognized in profit and loss at the same date on which the assets are derecognized, under the item "Profit (loss) from the disposal of investments".

7 – 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.

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

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 profit or loss in the period in which it is incurred.

Recognition of intangible assets generated internally, and software in particular, is subject to verification of the above conditions and distinguishing between the research activities and development activities carried out to produce the asset. Costs associated with research cannot be capitalized, as the generation of probable future economic benefits cannot be demonstrated.

Intangible assets can be recognized in respect of goodwill arising from business combinations (purchases of business units). This goodwill is recognized in an amount equal to the positive difference between the purchase price of the business combination (the consideration transferred) and the fair value of the assets and liabilities acquired if that positive difference represents 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

After initial recognition, intangible assets with a finite useful life are recognized at cost, net of total amortization and accumulated impairment losses. Amortization begins when the asset becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended and ceases when the asset is derecognized. Intangible assets are amortized on a straight-line basis, so as to reflect the long-term use of the asset over its estimated useful life, which for application software does not exceed 5 years.

Goodwill is not amortized and is tested for impairment at the reporting 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 under "Net adjustments of intangible assets", as are impairment losses. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in profit or loss. 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.

Writedowns of goodwill are recognized in the income statement under “Writedowns of goodwill”. Goodwill previously written down may not be written back.

Gains and losses from the disposal or other transfer of an intangible asset are determined as the difference between the net sale price and the carrying amount of the asset and recognized in the income statement under the item “Profit (Loss) from disposal of investments”.

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

Classification

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

Properties obtained through the enforcement of guarantees are classified under this item when the following conditions are met:

- the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable. In particular, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Finally, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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, with the exception of assets for which IFRS 5 requires measurement in accordance with the applicable IFRSs (e.g. financial assets within the scope of IFRS 9).

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, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). 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 recognized in the income statement under “Profit (loss) after tax of discontinued operations”. Gains and losses associated with individual assets held for sale are recognized under the most appropriate item of the income statement.

Derecognition

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

9 – 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 revenue 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.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the "direct scope" of the Group (the former Iccrea Banking Group), the tax positions of each Group company 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 taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished 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).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

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 measured at fair value through other comprehensive income or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

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

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

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

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

Recognition of income components

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period.

In determining income taxes, any uncertainties over tax treatments are taken into account, in accordance with the provisions of IFRIC 23.

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.

Derecognition

Deferred tax assets and deferred tax liabilities are derecognized in the period in which:

- the temporary difference that originated them becomes taxable for deferred tax liabilities or deductible for deferred tax assets;
- the temporary difference that originated them is no longer relevant for tax purposes;
- for deferred tax assets only, the probability test envisaged by IAS 12 indicates that sufficient future taxable income will not be available.

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

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.

11 – Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks, amounts due to customers and securities issued, comprising all technical forms of interbank and customer funding, repurchase agreements and funding through certificates of deposit, bonds and other funding instruments in circulation, net of any amounts repurchased.

The item also includes liabilities recognized by the lessee in respect of leases (finance or operating) pursuant to IFRS 16).

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 revenue 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. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

Interest expense recognized on financial liabilities is reported under “Interest and similar expense” in the income statement.

Lease liabilities are remeasured when there is a lease modification (e.g. a change in the scope of the lease) that is not accounted for/considered as a separate contract.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also 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 under “Gain (loss) on the disposal or repurchase of: c) financial liabilities”. 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.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

12 – 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 embedded derivatives to be separated from hybrid instruments representing financial liabilities. 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 financial liabilities or other contractual forms 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, with the exception of cases in which the compound instrument containing the derivative is entirely measured at fair value through profit or loss.

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value through profit or loss. Please see Part 4 “Fair value disclosures” of these notes to the financial statements for information on determining fair value.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

Recognition of income components

Gains and losses from the measurement of and transactions in financial liabilities held for trading are recognized through profit or loss.

13 – Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the “fair value option”). More specifically, financial liabilities may be irrevocably designated as at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch due to a measurement inconsistency or where they contain one or more embedded derivatives.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their 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 and recognition of income components

After initial recognition, financial liabilities reported under this item are measured at fair value in accordance with the following rules:

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity) and is not subsequently recycled through profit or loss;
- all other changes in fair value shall be recognized through profit or loss under “Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss: a) financial assets and liabilities designated as at fair value”.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

14 – Foreign currency transactions

Classification

In addition to those explicitly denominated in a currency other than the euro, foreign currency assets and liabilities also include those that have indexing clauses linked to the exchange rate of the euro with a specific currency or with a certain basket of currencies.

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.

For the purposes of translation, foreign currency assets and liabilities are divided into monetary items (classified under current items) and non-monetary items (classified under non-current items). Monetary items comprise cash and assets and liabilities to be received or paid in fixed or determinable amounts of money. Non-monetary items are characterized by the absence of a right to receive, or an obligation to deliver, an fixed or determinable amount of money.

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 rate differences relating to financial assets/liabilities other than those designated as at fair value and those mandatorily measured at fair value through profit or loss are recognized in the income statement under the item "Net gain (loss) on trading activities". Exchange rate differences relating to the two categories referred to above are recognized in under the item "Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss". In addition, if the financial asset is measured at fair value through other comprehensive income, exchange rate differences are allocated to the relevant valuation reserve.

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

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

15 – 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 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 amounts to the fund.

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;

- 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 for employee service, in profit or loss. 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 revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

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 through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue 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;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, the following steps are followed in recognizing revenue from contracts with customers

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under “Other assets” or “Other liabilities”.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”. Amortization is performed over the useful life of the right of use in respect of the buildings and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost, while the income components of financial assets measured at fair value are determined using the effective interest rate method provided for in the amortized cost approach.

The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets (“POCI”), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation of the amortized cost.

Determination of impairment

Financial assets

At each reporting date, the Group determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than that specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement.

In this case, the lifetime expected loss is measured;

- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;
- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to expected credit loss, the risk parameters necessary for calculating that value have been distinguished by differentiating between the securities portfolio and the loan portfolio.

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs undergo forward-looking conditioning;
- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the sue of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions (based on the information produced pursuant to Bank of Italy Circular 284) and the application of the so-called danger rate, conditioned by macroeconomic scenarios;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

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

These econometric models, called “satellite models” are differentiated by type of counterparty and make it possible to correlate the target variable (default rates) to a set of explanatory macroeconomic variables. The forecasts of the target variable are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. The results of the satellite model in each of the two distinct scenarios enable the calculation of multiplicative macroeconomic conditioning factors.

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

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

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

Debt securities

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

Equity securities and units of collective investment undertakings

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

Property, plant 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 as the greater of the fair value of the item of property, plant and equipment or the intangible asset net of costs of disposal and the value in use.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting 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 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.

With specific reference to the rights of use recognized in accordance with IFRS 16, evidence that an asset may have suffered an impairment loss may be associated both with internal factors (deterioration, obsolescence, etc.) and external factors (market value, technological changes, etc.). Failure to exercise a right of use or the subletting of the underlying asset are considered potential indicators of impairment of the right of use.

Determination of fair value

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

Financial instruments

Please see section A.4 Fair value disclosures for more information on the methods used to determine the fair value of financial instruments.

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.

Financial guarantees

As part of its ordinary banking operations, the Group grants financial guarantees in the form of letters of credit, acceptances and other guarantees. 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 “Provisions for risk and charges”.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

Business combinations

The transfer of control of an entity (or a group of integrated activities and assets, conducted and managed together) is a business combination.

IFRS 3 requires that an acquirer be identified for all business combinations. The acquirer is the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling entity using the definition of control described earlier, such as for example in the case of an exchange of equity interests, the acquirer must be identified using other factors such as: the entity whose fair value is significantly greater, the entity that possibly pays cash or the entity that issues new equity instruments.

The acquisition (and therefore the first consolidation of the acquired entity) must be accounted for on the date on which the acquirer actually obtains control over the entity or the assets acquired. When the business combination is achieved in a single exchange transaction, the date of exchange normally coincides with the acquisition date. However, it is always necessary to check for any agreements between the parties that may involve a transfer of control before the exchange date.

The consideration transferred as part of a business combination is determined as the sum of the fair value, at the exchange date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

In transactions involving payment in cash (or when payment is made using financial instruments comparable to cash) the consideration is the agreed price, possibly discounted if payment will be made in installments over a period longer than short term. If payment is made using an instrument other than cash, such as through the issue of equity instruments, the price is equal to the fair value of the means of payment net of costs directly attributable to the equity issue.

The consideration in a business combination at the acquisition date includes adjustments subordinated to future events if envisaged in the transfer agreements and only if they are probable, reliably determinable and made within the twelve months following the date of acquisition of control, while indemnities for a reduction in the value of the assets used are not included as they are already considered in the fair value of the equity instruments or as a reduction in the premium or increase in the discount on the initial issue of debt instruments, where applicable.

The costs related to the acquisition are charges that the acquirer incurs to carry out the business combination. By way of example, these include professional fees paid to auditors, experts, legal consultants, fees for appraisals and the auditing of accounts, preparation of information documents required by regulations, as well as consulting costs incurred to identify potential targets for acquisition if it is contractually established that payment is made only in the event of a successful combination, as well as the costs of registration and the issue of debt or equity securities.

The acquirer must account for the costs related to the acquisition as charges in the periods in which these costs are incurred and the services are received, with the exception of the costs of issuing equity or debt securities, which must be recognized in accordance with the provisions of IAS 32.

Business combinations are accounted for using the acquisition method, under which the identifiable assets acquired (including any intangible assets previously not recognized by the acquiree) and the identifiable liabilities assumed (including contingent liabilities) must be recognized at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree can be recognized at fair value (with a consequent increase in the consideration transferred) or as a proportion of the share of the non-controlling interests in the identifiable net assets of the acquiree.

If control is obtained in stages, the acquirer shall recalculate the interest previously held in the acquiree at its respective fair value on the acquisition date and record any difference with respect to the previous carrying amount through profit or loss. The excess of the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), increased by the value of any non-controlling interest (determined as indicated above), and the fair value of the interest previously held by the acquirer, over the fair value of the assets and liabilities acquired must be recognized as goodwill. However, if the latter exceed the sum of the consideration, non-controlling interest and the fair value of the interest previously held, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost net of accumulated impairment losses. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of part of the assets of the unit, the goodwill associated with the transferred asset is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the transferred asset is determined on the basis of the relative values of the transferred asset and the part retained by the cash-generating unit.

Business combinations can be accounted for provisionally by the end of the reporting period in which the combination occurs, with the accounting to be completed within twelve months of the acquisition date.

If the business combination is carried out for reorganizational purposes, i.e. between two or more entities or businesses that already belong to the same group and the combination does not involve a change in control regardless of the extent of non-controlling interests before and after the business combination (business combinations of entities under common control), the transaction is considered to be without economic substance. Accordingly, in the absence of specific instructions in the IASs/IFRSs and in compliance with the presumptions of IAS 8 which require that - in the absence of a specific standard – an entity shall use of its judgment in applying an accounting policy that provides relevant, reliable, prudent information that reflects the economic substance of the transaction, such combinations are accounted for preserving the values in the financial statements of the acquiree in those of the acquirer.

Mergers are the form of business combination that represents the most complete form of combination, as they involve both the legal and economic unification of the participating parties.

Mergers, whether they are mergers of equals, i.e. with the establishment of a new legal entity following the combination, or the combination of one entity into another surviving entity, are treated in accordance with the criteria illustrated previously, and in particular:

- if the transaction involves the transfer of control of an entity, it is treated as a business combination within the scope of IFRS 3;
- if the transaction does not involve the transfer of control, it is accounted for by preserving the values in the financial statements of the merged entity in the surviving entity.

A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In execution of shareholders' resolutions passed in December 2018 and following the establishment and launch of the Iccrea Cooperative Banking Group, at the beginning of the year 71 mutual banks reconfigured the business model of their financial portfolio, reclassifying about €3.7 billion of securities held under the hold to collect and sell (HTCS) business model to the hold to collect (HTC) business model and reclassifying about €0.3 billion of securities held under the hold to collect (HTC) business model to the hold to collect and sell (HTCS) business model.

No other reclassifications of financial assets were carried out in the first half of 2020.

The following table reports the reclassified carrying amount at January 1, 2019 of the reclassified assets as at that date and still recognized at the reporting date as they have not been sold or otherwise derecognized.

A.3.1 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, CARRYING AMOUNT AND INTEREST INCOME

Type of financial instrument	Original portfolio	New portfolio	Reclassification date	Reclassified carrying amount	Interest income recognized in the period (before taxes)
Debt securities	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	31/12/2019	57,635	-
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	3,182,668	-

A.4 –FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under 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 Group 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

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 is 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.

The definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable Approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The Group uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

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;
- derivatives are valued using discounted cash flow models, within the multi-curve framework based on OIS discounting;
- 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 at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods or with reference to direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date. They are measured at cost if their carrying amount is below the materiality thresholds set by the Group both at individual and consolidated level and in cases where the cost represents a reliable estimate of fair value (e.g. because the most recent information to evaluate fair value is not available);
- 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;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank's credit standing.

The Group 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, for example when it is necessary to ensure that the fair value reflects the value of a transaction that could actually be carried out in a market.

The factors impacting the need for an adjustment include the complexity of the financial instrument; the credit standing of the counterparty; and the presence of any collateral agreements. In particular, the Group uses 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 not calculated when collateral agreements have been formalized and are operational for derivatives positions.

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 (PD) and Loss Given Default (LGD): the parameters are derived from the impairment model. They are used to measure 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.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Group conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 FAIR VALUE HIERARCHY

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets. A financial instrument is considered to be quoted on an active market if prices are readily and regularly available and represent actual market transactions carried out on normal terms on a regulated market or MTF;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or quoted on inactive markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

The following are normally considered Level 1:

- shares, debt securities and units of CIUs listed on regulated markets. Units of CIUs include mutual investment funds (UCITS, AIFs and restricted FIAs), SICAVs/SICAFs and ETPs (Exchange Traded Products);
- debt securities listed on Multilateral Trading Facilities (MTF) which meet the "specific requirements for multilateral trading systems" set out in MiFID II;
- debt securities whose fair value is equal to the unadjusted prices provided by brokers/market makers from an active market for an identical instrument and executable at the declared level;
- Units of CIUs whose value (NAV) is provided directly by the market operator;
- listed derivative financial instruments and issued financial liabilities whose fair value at the valuation date corresponds to the price quoted on an active market.

The following are normally considered Level 2:

- debt securities issued by national and international issuers that are not listed on an active market and are measured using approaches that mainly employ observable market inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on observable market inputs;
- OTC financial derivatives entered into with institutional counterparties for which the main inputs are observable market data;
- units of CISs whose prices are provided by the issuing entity (the so-called "soft NAV");
- insurance policies and postal savings bonds whose fair values are approximated, respectively, by the surrender and repayment value, which pursuant to current legislation represent the exit price for these instruments.

Finally, the following are normally considered Level 3:

- debt securities not listed on an active market and measured using approaches that mainly employ unobservable inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on unobservable inputs;
- equity securities and issued financial liabilities for which there are no prices quoted on active markets at the valuation date and which are mainly valued using techniques based on unobservable market data;
- OTC financial derivatives entered into with institutional counterparties and measured using pricing models similar to those used for Level 2 valuations but from which they differ in the degree of observability of the inputs used in the pricing techniques;
- financial derivatives entered into with customers for which the fair value adjustment taking account of default risk is significant with respect to the total value of the financial instrument.

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.

A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Group's financial statements as the Group is not managing groups of financial assets and liabilities on the basis of its net exposure to a specific market risk (or risks) or to the credit risk of a specific counterparty and the highest and best use of a non-financial asset does not differ from its current use.

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	30/6/2020			31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	678,296	1,082,608	297,494	670,108	923,754	346,218
a) financial assets held for trading	49,132	294,893	1,838	48,643	154,889	1,692
b) financial assets designated as at fair value	358,502	24,919	4,603	362,091	-	5,385
c) other financial assets mandatorily measured at fair value	270,662	762,796	291,053	259,373	768,865	339,141
2. Financial assets measured at fair value through comprehensive income	9,040,305	138,966	172,809	8,885,355	135,921	88,450
3. Hedging derivatives	40	16,397	-	55	17,761	-
4. Property, plant and equipment	11,740	511,415	13,260	12,177	529,201	18,192
5. Intangible assets	-	-	-	-	-	-
Total	**9,730,382**	**1,749,386**	**483,563**	**9,567,695**	**1,606,638**	**452,860**
1. Financial liabilities held for trading	2,087	302,182	837	629	162,211	887
2. Financial liabilities designated as at fair value	4,124	2,831	439	7,933	3,528	-
3. Hedging derivatives	88	446,601	-	22	321,410	-
Total	**6,299**	**751,614**	**1,276**	**8,584**	**487,149**	**887**

PART B
Information on the consolidated balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 30/6/2020	Total 31/12/2019
a) Cash	669,455	842,225
b) Demand deposits with central banks	39,670	114,256
Total	709,125	956,482

The item “Demand deposits with central banks” is entirely accounted for by deposits with the Bank of Italy.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**32,677**	**2,500**	**59**	**34,841**	**1,134**	**60**
1.1 structured securities	1,159	-	10	1,480	-	10
1.2 other debt securities	31,518	2,500	49	33,361	1,134	50
2. Equity securities	**2,485**	**124**	**120**	**6,237**	**197**	**51**
3. Units in collective investment undertakings	**13,794**	**1,875**	**-**	**7,521**	**5,119**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	48,956	4,499	179	48,599	6,450	111
B. Derivatives						
1. Financial derivatives	**176**	**290,394**	**1,659**	**44**	**148,440**	**1,581**
1.1 trading	176	290,394	1,659	44	148,440	1,581
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	176	290,394	1,659	44	148,440	1,581
Total (A+B)	49,132	294,893	1,838	48,643	154,889	1,692

The sub-item A.1 – 1.2 “other debt securities” includes government securities held for trading, in the amount of about €17.3 million.

The sub-item B.1 – 1.1 reports the market value of the derivatives originated by Group operations.

2.3 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**358,503**	**24,919**	**-**	**362,091**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	358,503	24,919	-	362,091	-	-
2. Loans	**-**	**-**	**4,603**	**-**	**-**	**5,385**
2.1 structured	-	-	896	-	-	928
2.2 other	-	-	3,707	-	-	4,457
Total	**358,503**	**24,919**	**4,603**	**362,091**	**-**	**5,385**

The item 1.2 “other debt securities” reports the balance for securities in which the liquidity from the Guarantee Scheme run by the Parent Company is invested.

2.5 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**16,254**	**58,745**	**2,541**	**13,088**	**79,287**	**3,141**
1.1 structured securities	782	24,155	-	796	23,392	-
1.2 other debt securities	15,472	34,590	2,541	12,291	55,896	3,141
2. Equity securities	**9,115**	**8,533**	**19,196**	**4,040**	**110**	**25,908**
3. Units in collective investment undertakings	**245,294**	**177,708**	**39,877**	**242,246**	**198,639**	**47,612**
4. Loans	**-**	**517,809**	**229,438**	**-**	**490,828**	**262,480**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	517,809	229,438	-	490,828	262,480
Total	**270,662**	**762,795**	**291,053**	**259,373**	**768,865**	**339,141**

The item includes financial instruments that under IFRS 9 do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income (unit in CIUs, insurance policies, postal savings bonds, debt securities and loans failing to pass the SPPI test, the latter including exposures to system funds).

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**9,035,080**	**73,246**	**105,556**	**8,877,633**	**100,439**	**501**
1.1 structured securities	20,886	4,944	122	71,297	5,725	-
1.2 other debt securities	9,014,194	68,301	105,434	8,806,336	94,714	501
2. Equity securities	**5,225**	**65,721**	**67,253**	**7,722**	**35,482**	**87,949**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**9,040,306**	**138,967**	**172,809**	**8,885,355**	**135,921**	**88,450**

The item “Debts securities” mainly includes government securities.

“Equity securities - Level 2” includes the equity investment in the Bank of Italy for a total of €44.5 million. “Equity securities - Level 3” reports non-controlling interests.

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount			Total writedows			Total partial write-offs*
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	8,880,126	347,611	30	(3,930)	(9,944)	(11)	-
Loans	-	-	-	-	-	-	-
Total 30/6/2020	**8,880,126**	**347,611**	**30**	**(3,930)**	**(9,944)**	**(11)**	**X**
Total 31/12/2019	**8,882,589**	**101,036**	**394**	**(2,849)**	**(2,435)**	**(162)**	**X**

** Value to be reported for information purposes*

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST - ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/6/2020		Total 31/12/2019	
	Carrying amount		Carrying amount	
	Stage 1 and 2	Stage 3	Stage 1 and 2	Stage 3
A. Claims on central banks	**5,532,768**	**-**	**4,211,582**	**-**
1. Fixed-term deposits	-	-	-	-
2. Reserve requirements	5,532,762	-	4,211,577	-
3. Repurchase agreements	-	-	-	-
4. Other	6	-	5	-
B. Due from banks	**3,450,897**	**568**	**4,193,855**	**423**
1. Financing	2,559,885	568	3,172,240	423
1.1 Current accounts and demand deposits	568,973	-	592,548	-
1.2. Fixed-term deposits	67,289	-	79,619	-
1.3. Other financing:	1,923,623	568	2,500,073	423
- Repurchase agreements	24,604	-	24,721	-
- Finance leases	255	-	299	-
- Other	1,898,764	568	2,475,053	423
2. Debts securities	891,012	-	1,021,615	-
2.1 Structured securities	70,023	-	71,657	-
2.2 Other debt securities	820,989	-	949,958	-
Total	**8,983,665**	**568**	**8,405,437**	**423**

"Claims on central banks" total €5.5 billion and include the balance of the Group banks' reserve requirement, of which €4.6 billion managed on behalf of the mutual banks by the Parent Company.

Amounts due from banks "Other financing – Other" mainly include loans by the Parent Company to the mutual banks not belonging to the Group, connected with pool collateral operations, with a total value of €1.2 billion, of which €0.9 billion granted within the framework of Targeted Longer-Term Refinancing Operations (TLTRO). The reduction by comparison with the balance at December 31, 2019 is explained by the early repayment of TLTRO-II financing by banks not belonging to the Group.

The sub-item "debt securities" comes to €0.9 billion and includes bank bonds held by the Group.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/6/2020		Total 31/12/2019	
	Carrying amount		Carrying amount	
	Stage 1 and 2	Stage 3	Stage 1 and 2	Stage 3
1. Loans	**80,748,690**	**5,017,922**	**80,032,422**	**5,208,436**
1.1. Current accounts	6,979,831	954,751	8,253,047	988,007
1.2. Repurchase agreements	3,290,874	-	2,935,176	-
1.3. Medium/long term loans	57,136,844	3,500,694	54,521,468	3,622,770
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,039,341	40,999	2,148,153	38,177
1.5. Finance leases	4,171,729	380,352	4,292,086	412,496
1.6. Factoring	268,441	8,222	492,578	12,126
1.7. Other loans	6,861,630	132,906	7,389,914	134,860
2. Debt securities	**54,015,059**	**1,888**	**42,221,208**	**1,545**
2.1. Structured securities	114,900	480	131,271	135
2.2. Other debt securities	53,900,159	1,408	42,089,937	1,410
Total	**134,763,749**	**5,019,810**	**122,253,630**	**5,209,981**

The item “Repurchase agreements” came to €3.3 billion and reports amounts connected with transactions with the Clearing & Guarantee Fund.

Medium/long-term loans, amounting to €60.6 billion are mainly granted to households and non-financial companies.

“Debt securities” classified here came to €54 billion and include €52.4 billion of government securities, mainly Italian government securities. The significant increase in loans to customers compared with December 31, 2019 reflects the rise in the exposure in government securities (+€11.8 billion) associated with the Group’s new financial strategy approved in March 2020 in response to the more expansionary monetary policy stance adopted by the ECB (in particular the expansion of access to the TLTRO III program) to counter the negative impact of the COVID-19 emergency on the economy.

The above items include senior notes issued in securitization transactions totaling about €1.2 billion, mostly attributable to own securitization transactions.

4.4 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: GROSS AMOUNT AND TOTAL WRITEOFFS

	Gross amount			Total writedowns			Total partial write-offs *
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debts securities	53,706,271	1,308,722	2,954	(22,582)	(86,340)	(1,066)	(1,977)
Loans	78,308,493	11,324,092	10,611,417	(248,997)	(542,246)	(5,592,927)	(387,082)
Total 30/6/2020	**132,014,764**	**12,632,814**	**10,614,371**	**(271,579)**	**(628,586)**	**(5,593,993)**	**(389,059)**
Total 31/12/2019	**119,549,989**	**12,050,469**	**10,619,629**	**(355,304)**	**(586,087)**	**(5,409,225)**	**(411,964)**

** Value to be reported for information purposes*

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	Fair value 30/6/2020			NV	Fair value 31/12/2019			NV
	Level 1	Level 2	Level 3	30/6/2020	Level 1	Level 2	Level 3	31/12/2019
A. Financial derivatives								
1. Fair value	40	14,682	-	899,272	55	8,968	-	617,372
2. Cash flows	-	1,715	-	175,000	-	8,793	-	275,253
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**40**	**16,397**	**-**	**1,074,272**	**55**	**17,761**	**-**	**892,625**

Key
NV=Notional value

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/6/2020	Total 31/12/2019
1. Positive adjustments	**227,831**	**154,318**
1.1 of specific portfolios:	227,831	154,318
a) financial assets measured at amortized cost	222,223	150,396
b) financial assets measured at fair value through comprehensive income	5,608	3,922
1.2 comprehensive	-	-
2. Negative adjustments	**(148)**	**(14,373)**
2.1 of specific portfolios:	(148)	(14,373)
a) financial assets measured at amortized cost	(148)	(14,373)
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	-	-
Total	227,683	139,945

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	Type of relationship	Investment		% of votes
				Investor	% holding	
A. Joint ventures						
B. Companies subject to significant influence						
1. BCC Vita S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30%	30%
2. BCC Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	30%	30%
3. Satispay S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	14%	14%
				Bcc Alpi Marittime Credito Cooperativo Carrù S.C.	2%	2%
4. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	25%	25%
5. M-Facility S.r.l.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	41%	41%
6. Polo Verde S.r.l.	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25%	25%
7. Foro Annonario Gest S.r.l.	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25%	25%
8. Solaria S.r.l.	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche e di Maremma S.C.	40%	40%
9. HBenchmark S.r.l.	Altavilla Vicentina	Altavilla Vicentina	Significant influence	Iccrea Banca S.p.A.	10%	10%

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Joint ventures			
B. Companies subject to significant influence			
1. BCC Vita S.p.A.	79,369	79,369	-
2. BCC Assicurazioni S.p.A.	3,534	3,534	-
3. Satispay S.p.A.	4,417	4,417	-

7.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT CONTROL OR SIGNIFICANT INFLUENCE

"Part A – Accounting Policies, "Section 3 – Scope and methods of consolidation" of the notes to the financial statements sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise joint control or significant influence over an investee company or another entity.

SECTION 9 – PROPERTY, PLANT AND EQUIPMENT – ITEM 90

OPERATING PROPERTY, PLANT AND EQUIPMENT

	Total 30/6/2020	Total 31/12/2019
1. Owned assets	**1,825,508**	**1,830,840**
a) land	298,966	299,708
b) buildings	1,299,019	1,297,610
c) movables	59,976	62,485
d) electronic systems	70,884	86,207
e) other	96,663	84,830
2. Assets acquired under finance leases	**275,819**	**298,400**
a) land	5,103	5,126
b) buildings	254,522	276,731
c) movables	1,004	605
d) electronic systems	9,509	10,735
e) other	5,682	5,203
Total	2,101,327	2,129,240

The rights of use acquired under leases for buildings are attributable almost entirely to the leases of properties used as branches and spaces used to host ATMs or offices.

INVESTMENT PROPERTY

	Total 30/6/2020	Total 31/12/2019
1. Owned assets	**679,825**	**697,549**
a) land	35,450	36,973
b) buildings	644,375	660,576
2. Right-of-use assets acquired under leases	**7,540**	**7,540**
a) land	-	-
b) buildings	7,540	7,540
Total	687,365	705,089

INVENTORIES OF PROPERTY, PLANT AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: COMPOSITION

	Total 30/6/2020	Total 31/12/2019
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received	**9,257**	**7,620**
a) land	704	333
b) buildings	4,104	2,483
c) movables	-	-
d) electronic systems	-	-
e) other	4,449	4,803
2. Other inventories of property, plant and equipment	**730**	**592**
Total	9,987	8,212

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/6/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**25,611**	**X**	**25,868**
A.1.1 pertaining to the Group	X	25,611	X	25,868
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**124,843**	**5**	**120,594**	**-**
A.2.1 Assets carried at cost	124,843	5	120,594	-
a) internally generated intangible assets	7,125	-	6,422	-
b) other assets	117,718	5	114,172	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	124,843	25,616	120,594	25,868

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€10 million) and goodwill recognized upon first-time consolidation of certain controlling interests (€15.6 million) prior to the formation of the Mutual Banking Group.

Other intangible assets mainly comprise software and licenses and, to a lesser extent, intangible assets deriving from business combinations carried out by Group banks prior to formation of the Group.

10.3 OTHER INFORMATION

Testing goodwill for impairment

IAS 36 requires that certain types of asset, including goodwill, undergo impairment testing at least annually (in the case of the Iccrea Cooperative Banking Group and the main Italian banking groups, at the end of the calendar year) in order to verify the recoverability of their value.

The standard also establishes that the annual detailed calculation can be considered valid for the purposes of subsequent assessments as long as the probability that the recoverable value of the assets is less than the carrying amount is considered remote. This judgment is essentially based on an analysis of events that have occurred and any circumstances that may have changed since the date of the most recent annual impairment test. Specifically, IAS 36 requires the performance of certain qualitative and quantitative analyzes in the preparation of the interim financial statements in order to identify the possible existence of impairment indicators ("internal" and "external") and consequently whether the conditions have been met for performing impairment tests more frequently than the ordinary annual testing.

In March 2020, ESMA issued public statements on the transparency of disclosures with specific reference to the impacts of COVID-19 on financial reporting. In this regard, the cash flow projections used to determine recoverable value must be based on the most recent budget/forecast approved by management as well as on reasonable and supportable assumptions representing the best estimate of future economic conditions, giving greater weight to external evidence (IAS 36 paragraph 33). Considering the current situation of uncertainty, significant attention must also be paid to the performance of the sensitivity analyzes provided for in IAS 36 regarding the potential impact of the pandemic on the assumptions underlying the estimates.

Furthermore, in May 2020, ESMA issued the public statement "Implications of the COVID-19 outbreak on the half-yearly financial reports" with specific reference to the impacts of COVID-19 to be considered when preparing interim financial reports. In particular, issuers are asked to carefully evaluate the possible presence of factors underlying a possible impairment of an asset, based on internal and external sources of information, with particular reference to the effects of the COVID-19 pandemic. Determining the recoverable amount in the current environment of uncertainty requires a careful assessment of the cash flow projections over a relevant time horizon.

ESMA then emphasizes the importance of updating the relevant information when preparing interim financial reports, with reference to the main assumptions underlying the assessments and sensitivity analyzes, for example by expanding the range of possible values for the key assumptions of the evaluation.

In consideration of the foregoing, analyzes were performed by the Iccrea Cooperative Banking Group to verify the presence or absence, compared with the date of approval of the impairment test performed in the preparation of the consolidated financial statements at December 31, 2019, of indicators/events of either an external or internal nature (so-called trigger events) such as to give rise to the need to perform impairment testing for the interim financial report at 30 June 2020. The Group has considered that the potential effects of the pandemic in itself represent a trigger event to be taken into account in updating the impairment testing of the goodwill recorded in the interim financial statements of the Cooperative Banking Group at 30 June 2020.

More specifically, in consideration of the above, the following external factors were analyzed:[24]

- the evolution of the macroeconomic scenario and the forecasts of the banking sector for the medium term with respect to the assumptions underlying the projections considered in the 2019 impairment testing, taking due account of the effects associated with COVID-19;
- the components of the discount rate compared between the situation prevailing at the time of the impairment testing exercise and the current situation;

[24] The following are the results of the analysis of the main external factors:

- the evolution of the main macroeconomic data for euro area reveals a substantial contraction. In particular, during 2020, the health crisis associated with the COVID-19 pandemic and the subsequent imposition of lockdown measures led to a reduction in estimates for growth in GDP and domestic demand. The expectation of a solution to this crisis weighs on the short-term outlook. The main macroeconomic figures are expected to stage a recovery in 2021, with growth attributable to the end of the lockdown, which in 2020 produced a sharp slowdown in the European and world economies. In addition, the pandemic has seen strong support from the Member States of the European Union, which are intervening with economic and fiscal policies to support the ECB's monetary policy;
- the expected evolution of the main domestic macroeconomic aggregates also points to a substantially contraction. In particular, the latest estimates for Italian GDP and domestic demand have been revised downwards in the wake of the slowdown recorded in the first part of the year at the European level and the negative consequences of the long lockdown period. The expansionary economic and fiscal policies that the government has undertaken, including the use of wage supplementation mechanisms, appear able to support employment and, consequently, household income and the growth of inflation. The most recent estimates for the public debt (as a % of GDP) are deteriorating, while inflation, which fell in 2020, will accelerate in 2021;
- expected interest rates in the euro area have declined slightly as a result of the continuing support of the expansionary monetary policy adopted by the ECB to counter the COVID-19 crisis. The persistent negative levels of market rates, which are mainly linked to the change in the forward guidance by the ECB during 2019, are representative of the continuing weakness of economic activity, which has been further impacted by the COVID-19 epidemic and therefore requires a strong monetary stimulus;
- as regards the projections for the Italian banking system, the main deviations from the forecasts considered in the planning stage concern bad debts. This category of loan is expected to contract than forecast last January, justified by the intense volumes of sales recorded and by the credit and financial system support measures adopted in light of the COVID-19 pandemic;
- the update of the parameters for determining the cost of capital, which was used in the analysis as the discount rate, showed a risk-free rate plus the country risk factor, measured by the 12-month average yield on 10-year BTPs, down from 2.33% in June 2019 to 1.37% in June 2020. The beta determined for the impairment testing in the 2019 financial statements, taken as an average of a sample of listed Italian banks, was slightly higher than the current situation, reflecting the fact that the market is factoring in a lower level of volatility owing to the substantial fiscal and monetary policy interventions. The market risk premium in June 2020 was 5.37%.

as well as the following internal factors:[25]

- a comparison of the data at December 31, 2020 indicated in the last Plan approved by management and the expected profit forecasts in the 2020 budget as revised to reflect the effects of the COVID-19 emergency;
- an analysis of changes in the market values of comparable companies for investee companies measured using market multiples;
- an analysis of actual figures at June 30, 2020 for companies measured using the equity method.

The analyzes of the main external and internal factors show:

- a substantial revision of the 2020 budget in light of the effects caused by COVID-19;
- a slight decline in euro-area interest rates as a result of the continuing support of the expansionary monetary policy adopted by the ECB to counter the COVID-19 crisis;
- a reduction in K_e from 7.8% at December 31, 2019 to 7.5% at June 30, 2020, mainly attributable to a slight decrease in the average yields of Italian 10-year government securities as a result of the massive purchases of government securities by ECB to address the effects of COVID-19.

In summary, as a result of the above analysis, COVID-19 certainly represents a trigger event warranting the performance of impairment testing as at June 30, 2020 as social, health and economic uncertainty generated have significant impacts on current and future macroeconomic aggregates and, consequently, adversely affect the Group's performance.

The parameters and information used to assess the recoverability of intangible assets with an indefinite life are significantly influenced by macroeconomic conditions and developments in the financial markets, which could experience changes that are currently not foreseeable. In view of the foregoing, during the second half of the year all indicators will continue to be carefully monitored both at the Group and individual bank level, also taking account of the strategic planning process for the coming years.

The goodwill of the affiliated banks

In order to perform impairment testing of the goodwill recognized by the banks, the Group has adopted common criteria and methodological models, in line with best market and theoretical practice. More specifically, they calculate value in use instead of fair value less costs to sell, mainly due to the fact that the mutual banks are not listed on an active market and their nature, size and operations make it difficult and excessively arbitrary to identify comparable listed companies in the Italian market that would enable the use of the most common methods for estimating fair value net of costs to sell (e.g. “comparable transactions” or “comparable companies” methods).

Consistent with the provisions of IAS 36 and taking account of the general principles of reasonableness and demonstrability of the estimates to be used, two distinct approaches have been adopted within the Group (based on the use of a CGU represented, respectively, by the entire company or the branches that originally led to the recognition of goodwill) in order to ensure any necessary continuity in the analytical methods.

In the case of the “entire company CGU”, the dividend discount model (DDM) - excess capital variant – has been applied. It estimates the value of a company (in this case, the affiliated mutual bank) on the basis of future dividends distributable to shareholders. This method is widely used in accepted valuation practice and supported by the best scholarly work on corporate valuation techniques, with particular regard to companies operating in the financial sector.

Affiliates that adopt the “branches acquired CGU” use the discounted cash flow (“DCF”) – levered variant. It estimates the value of the economic capital of a company (“equity value”) as the sum of the present value of the cash flows distributable to shareholders that it will generate over a specified explicit period for planning projected economic/financial data and of the residual value at the end of the that period (“TV”), discounted at a rate equal to the cost of capital (“Ke”).

Please see the notes to the consolidated financial statements of the Iccrea Cooperative Banking Group at December 31, 2019 for an extensive discussion of the assumptions and parameters underlying the valuation models used at that date. At the reporting date for these interim financial statements, in order to verify the stability of the goodwill recognized in the financial statements of the affiliated mutual banks, the analyzes conducted during the impairment testing at December 31, 2019 were updated on the basis of the new 2020 budgets as revised to reflect the effects of the COVID-19 pandemic. In addition, a sensitivity analysis was carried out on the Ke in order to identify, for each CGU, the threshold rate beyond which the conditions for adjusting the carrying amount would be met.

At June 30, 2020, goodwill recognized in respect of the affiliated banks totaled €10 million, of which €3.9 million in respect of the “entire

[25] In light of market conditions that have been profoundly affected by the effects of the pandemic and the measures implemented by the Government to address it, the performance of the investee companies and the mutual banks have deviated significantly from the budget projections prepared during the planning stage. Accordingly, failure to achieve the objectives established in the planning stage as a result of COVID-19 is such that it is considered a trigger event in itself.

company CGU" and €6.1 million in respect of the "branches acquired CGU".

Goodwill of investee companies

In the measurement of the goodwill recognized in the consolidated financial statements following the acquisition of control over the investee, the CGU is represented by each of these investees.

With regard to the goodwill recognized at the first-time consolidation of BCC Risparmio&Previdenza SGRpA (€10.5 million), the market multiples method was used to measure the company.

The market multiples method is based on the assumption that the value of a company can be determined by drawing information from the stock exchange market for companies operating in the same sector of the company being valued ("comparable companies"). Specifically, the method involves calculating multipliers ("stock market multiples") resulting from the relationship between the value that the market attributes to comparable companies and their performance and financial indicators. The value of the company being valued is obtained by applying the identified multiples to the indicators of the company involved.

In particular, an international panel of companies operating in the asset management sector was considered, representing the business of BCC Risparmio&Previdenza SGRpA, using P/BV (Price/Book Value) as the multiple.

The outcome of the impairment test confirms the value of the goodwill recognized in the financial statements.

In order to assess the goodwill recognized at first-time consolidation of BCC Sistemi Informatici (€4.9 million), for the purposes of the impairment test, the economic value of the company's capital was estimated using the market multiples method. In particular, an international panel of companies operating in the IT sector and in the development of software was considered, as these represent the main activities of BCC Sistemi Informatici, using P/BV (Price/Book Value) as the multiple.

The outcome of the impairment test confirms the value of the goodwill recognized in the financial statements.

SECTION 11 - TAX ASSETS AND LIABILITIES – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/6/2020			31/12/2019		
1) Recognized in income statement:	**1,463,079**	**170,394**	**1,633,473**	**1,492,969**	**178,233**	**1,671,202**
a) DTAs pursuant to Law 214/2011	**1,124,032**	**123,031**	**1,247,063**	**1,155,648**	**130,114**	**1,285,762**
Writedowns of loans to customers	1,095,681	122,803	1,218,484	1,154,768	129,992	1,284,760
Goodwill and other intangible assets at December 31, 2014	591	84	675	664	87	751
Tax losses/negative value of production pursuant to Law 214/2011	27,760	144	27,904	216	35	251
b) Other	**339,047**	**47,363**	**386,410**	**337,321**	**48,119**	**385,440**
Writedowns of amounts due from banks	2,318	127	2,445	4,718	3	4,721
Writedowns of loans to customers	77,931	24,768	102,699	85,155	24,397	109,552
Goodwill and other intangible assets	5,836	1,510	7,346	6,230	1,265	7,495
Tax losses	72,342	-	72,342	70,949	-	70,949
Writedowns of financial instruments	1,184	666	1,850	1,032	519	1,551
Writedowns from impairment of guarantees issued recognized under liabilities	34,639	215	34,854	33,252	291	33,543
Provisions for risks and charges	84,114	10,945	95,059	78,396	9,819	88,215
Costs of predominantly administrative nature	2,049	225	2,274	1,933	171	2,104
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	27,110	4,566	31,676	26,292	4,243	30,535
Other	31,524	4,341	35,865	29,364	7,410	36,774
2) Recognized in shareholders' equity:	**26,761**	**5,367**	**32,128**	**26,076**	**5,146**	**31,222**
a) Valuation reserves	**14,581**	**3,038**	**17,619**	**10,231**	**2,146**	**12,377**
Capital losses on financial assets measured through OCI	14,581	3,038	17,619	10,231	2,147	12,377
b) Other:	**12,180**	**2,329**	**14,509**	**15,845**	**3,000**	**18,845**
Actuarial gains/losses on provisions for employees	3,634	34	3,668	3,614	27	3,641
Other	8,546	2,295	10,841	12,231	2,973	15,204
A. Total deferred tax assets	**1,489,840**	**175,761**	**1,665,601**	**1,519,045**	**183,379**	**1,702,424**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total item 110 b)	**1,489,840**	**175,761**	**1,665,601**	**1,519,045**	**183,379**	**1,702,424**

The DTAs referred to in Law 214/2011, equal to a total of €1.2 billion, are mainly represented by prepaid taxes attributable to writedowns of loans to customers accounted for up to 2015 and not yet deducted, which can be converted into tax credits in the event of a net loss for the year and/or a tax loss. Under the provisions of the above law, the recovery of these DTAs is certain and independent of the profitability of the companies that have recognized them.

DTAs other than those referred to in Law 214/2011, equal to a total of €386.4 million, are recognized to the extent that their recovery is probable.

The sub-item "Writedowns of loans to customers" reported in the aggregate b) Other and equal to €102.7 million includes the deferred tax assets that can be recognized in respect of the nine-tenths of writedowns on loans to customers recognized at first-time adoption of IFRS 9, which under Law 145 of December 30, 2018 are deducted in tenths.

The sub-item "Provisions for risks and charges", which amounts to €95.1 million, represents the prepaid taxes recognized in respect of provisions for risks and charges that are expected to be deducted in future years.

In line with the ESMA's position in its public statement "Implications of the COVID-19 outbreak on the half-yearly financial reports", which recommended that issuers also consider the impact of the COVID-19 outbreak on the DTAs recognized pursuant to IAS 12 in the preparation of their half-yearly financial reports, the Parent Company carried out an assessment to determine whether the positive outcome of the probability test performed for the 2019 financial statements remained valid for these interim financial statements at June 30, 2020.

At December 31, the probability of recovering DTAs other than those referred to in Law 214/2011 was assessed using the probability test on the basis of the ability to generate positive taxable income of the companies that recognized them (the affiliated banks) or, with the exercise of the option to participate in the consolidated taxation mechanism, the group of participating companies (company within the direct scope of consolidation).

With regard to the probability test performed by the affiliated banks, at December 31, 2019 the income or tax loss (IRES/IRAP) was estimated over a 5-year forecast period, from 2020 to 2024. As a basis for the determination of future taxable income reference was made to the strategic plans approved by the banks, which estimate performance and financial position for 2020-2023. For 2024, which is not covered in the planning figures, the value used in the last planning year was replicated.

At June 30, 2020, as the banks had not prepared new strategic plans, the Parent Company conducted a sensitivity analysis of the aggregate data of the affiliated mutual banks based on the 2020 revised budgets approved by them and of internal information developed by the management, which highlighted the expected divergences for 2020 on the basis of which the percentage divergences for subsequent years have been estimated. The testing conducted at the date of this interim report shows that profit, although expected to decrease as a result of the effects of the pandemic, are sufficient overall to recover the DTAs that will reverse in the period examined (2020-2024).

As regards the Parent Company and the other companies participating in the consolidated taxation system, the heterogeneity of the entities involved made it necessary to perform an analysis for each entity based on the individual revised 2020 plans and the projections for expected performance in the 2021-2023 period prepared by the competent Parent Company units. The test found that the consolidated taxation group will be able to recover all the DTAs recognized, including those that by definition could be indefinitely carried forward (i.e. DTA on tax losses and the ACE), by 2028.

The Group did not recognize deferred tax assets of about €132 million on prior-year tax losses that can be carried forward.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/6/2020			31/12/2019		
1) Deferred tax liabilities recognized in income statement	**29,485**	**4,372**	**33,857**	**29,035**	**4,489**	**33,524**
Writedowns of loans to customers deducted in tax return	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and	17,788	3,468	21,256	18,182	3,491	21,673
Other	11,697	904	12,601	10,853	998	11,851
2) Deferred tax liabilities recognized in shareholders' equity	**36,446**	**6,773**	**43,219**	**44,695**	**8,613**	**53,308**
Valuation reserves						
Capital gains on financial assets measured through OCI	18,781	3,534	22,315	25,556	5,036	30,592
Revaluation of property	15,528	3,048	18,576	15,841	3,112	18,953
Other	2,137	191	2,328	3,298	465	3,763
A. Total deferred tax liabilities	**65,931**	**11,145**	**77,076**	**73,730**	**13,102**	**86,832**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets	**65,931**	**11,145**	**77,076**	**73,730**	**13,102**	**86,832**

SECTION 12 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

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

	30/6/2020	31/12/2019
A. Assets held for sale		
A.1 Financial assets	-	769
A.2 Equity investments	-	-
A.3 Property, plant and equipment	28,175	33,087
of which obtained through enforcement of guarantees received	20,313	8,091
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**28,175**	**33,856**
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
C. Liabilities associated with assets held for sale		
C.1 Debt	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**

The balance of sub-item “A.3 Property, plant and equipment” is mainly attributable to properties for which it is highly probable their sale will be completed within the twelve months following the reporting date.

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	Total 30/6/2020	Total 31/12/2019
- Shortfalls, embezzlement and robberies	1,480	1,461
- Trade receivables	53,830	48,172
- Stamp duty and other valuables	2,393	1,606
- Gold, silver and other precious metals	5,393	2,731
- Receivables for future premiums on derivatives	10,851	11,678
- Fees and commissions and interest to be received	15,330	18,244
- Tax receivables due from central govt. tax authorities and other tax agencies	399,627	353,557
- Receivables from social security institutions	4,120	3,999
- Tax receivables	20,750	27,758
- Receivables from employees	5,913	6,951
- Non-recurring transactions (acquisitions)	14,265	17,518
- Items in transit between branches and items being processed	692,855	583,008
- Accrued income not attributable to separate line item	27,418	32,119
- Prepaid expenses not attributable to separate line item	58,260	29,129
- Leasehold improvements	38,703	52,028
- Other (security deposits, assets not attributable to other items)	520,472	482,114
- Balance of illiquid portfolio items	5,705	7,934
- Consolidation adjustments	269,322	570,039
Total	2,146,687	2,250,045

"Items in transit between branches and items being processed" reports assets that for technical/procedural reasons will be allocated definitively in the early days of the subsequent period, such as checks, incoming bank transfers pending or items in transit between banks.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – ITEM 10

1.1 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – DUE TO BANKS: COMPOSITION BY TYPE

	Total 30/6/2020	Total 31/12/2019
1. Due to central banks	**27,389,051**	**17,411,817**
2. Due to banks	**2,443,570**	**1,461,929**
2.1 Current accounts and demand deposits	284,050	306,344
2.2 Fixed term deposits	174,334	105,736
2.3 Loans	1,852,507	939,674
2.3.1 Repurchase agreements	1,724,146	799,850
2.3.2 Other	128,361	139,824
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-
2.5 Other payables	1,654	2,136
2.6 Other payables	131,025	108,039
Total	29,832,621	18,873,746

“Due to central banks” mainly represents financing from the ECB (TLTROs), maturing in December 2022, March 2023 and June 2023. The significant increase compared with the end of 2019 is associated with the Group’s new financial strategy approved in March 2020 in response to the more expansionary monetary policy stance adopted by the ECB (in particular the expansion of access to the TLTRO III program) to counter the negative impact of the COVID-19 emergency on the economy.

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/6/2020	Total 31/12/2019
1. Current accounts and demand deposits	83,932,378	80,905,313
2. Fixed-term deposits	6,253,034	6,483,273
3. Loans	16,612,885	16,519,704
3.1 Repurchase agreements	14,550,328	13,966,184
3.2 Other	2,062,557	2,553,520
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-
5. Lease liabilities	275,298	282,977
6. Other payables	1,388,391	1,389,846
Total	108,461,986	105,581,113

Amounts due to customers increased by a total of €2.9 billion compared with the end of the previous year, mainly reflecting an increase in balances on current accounts and demand deposits.

The sub-item “Repurchase agreements” is mainly composed of transactions with the Clearing and Guarantee Fund in the amount of €14.4 billion.

The sub-item “Loans-other” comprises €1.5 billion in loans obtained in OPTES auctions with the MEF.

1.3 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - SECURITIES ISSUED: COMPOSITION BY TYPE

	Total 30/6/2020	Total 31/12/2019
A. Securities		
1. Bonds	9,109,254	10,589,999
1.1 structured	4,781	6,462
1.2 other	9,104,473	10,583,537
2. Other securitie4s	5,486,082	5,788,139
2.1 structured	-	-
2.2 other	5,486,082	5,788,139
Total	**14,595,336**	**16,378,138**

"Other securities – other" include certificates of deposit issued by Group banks.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	1,304	1,375	-	-	1,375	290	312	-	-	312
2. Due to customers	323	253	79	-	332	332	313	-	-	313
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**1,627**	**1,628**	**79**	**-**	**1,707**	**622**	**625**	**-**	**-**	**625**
B. Derivatives										
1. Financial derivatives	X	459	302,103	838	X	X	5	162,211	887	X
1.1 Trading	X	459	302,103	-	X	X	5	162,211	-	X
1.2 Associated with fair value option	X	-	-	838	X	X	-	-	887	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**459**	**302,103**	**838**	**X**	**X**	**5**	**162,211**	**887**	**X**
Total (A+B)	**X**	**2,087**	**302,182**	**838**	**X**	**X**	**630**	**162,211**	**887**	**X**

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

The sub-item 1.1 "Financial derivatives – trading" includes the negative value of trading derivatives entered into almost entirely by the Parent Company.

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 30

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

	Total 30/6/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**7,186**	**4,124**	**2,830**	**439**	**7,393**	**11,006**	**7,933**	**3,528**	**-**	**11,055**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	7,186	4,124	2,830	439	X	11,006	7,933	3,528	-	X
Total	**7,186**	**4,124**	**2,830**	**439**	**7,393**	**11,006**	**7,933**	**3,528**	**-**	**11,055**

Key:

NV= Nominal or notional value

L1= Level 1

L2= Level 2

L3= Level 3

* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The sub-item 3.2 “Debt securities – Other” includes bonds issued by a number of affiliated banks hedged with interest rate derivatives measured in accordance with the fair value option pursuant to IFRS 9.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	NV	Fair value 30/6/2020			NV	Fair value 31/12/2019		
	30/6/2020	L1	L2	L3	31/12/2019	L1	L2	L3
A) Financial derivatives	**6,143,795**	**88**	**446,601**	**-**	**7,617,757**	**22**	**321,409**	**-**
1) Fair value	5,815,949	88	443,243	-	7,586,602	22	321,075	-
2) Cash flows	327,846	-	3,358	-	31,155	-	334	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**6,143,795**	**88**	**446,601**	**-**	**7,617,757**	**22**	**321,409**	**-**

Key:

NV=notional value

L1=Level 1

L2= Level 2

L3= Level 3

SECTION 5 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

		Total 30/6/2020	Total 31/12/2019
1. Positive adjustment of financial liabilities		-	-
2. Negative adjustment of financial liabilities		1,298	825
	Total	**1,298**	**(825)**

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

		Total 30/6/2020	Total 31/12/2019
Amounts due to social security institutions and State		76,754	112,421
Trade payables		106,136	129,232
Securities to be settled		1,611	2,469
Amounts available to customers		627,097	561,809
Non-recurring transactions (acquisitions)		3,253	1,521
Liabilities for future premiums on derivatives		4,154	5,285
Tax payables due to tax authorities		410,142	407,801
Payables due to employees		168,639	153,095
Financial liabilities in respect of loans granted for a specific transaction		4,360	2,666
Guarantees issued and credit derivatives		238	42
Accrued expenses not attributable to separate line item		38,437	8,476
Deferred income not attributable to separate line item		19,498	19,544
Items in transit and items being processed		251,954	225,894
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)		551,969	409,981
Consolidation adjustments		-	2,290
Balance of illiquid portfolio items		1,355,705	1,068,460
Dividends to be paid		725	198
	Total	**3,620,672**	**3,111,184**

The item "Amounts available to customers" mainly regards pension and wage payments from other banks awaiting payment to customers by mutual banks acting as intermediaries.

The item "Items in transit and items being processed" includes liabilities reflects liabilities that for technical or procedural reasons will be settled in the subsequent period, such as pending outward credit transfers or items in transit between banks.

The item "Tax payables due to tax authorities" reports amounts owed by the Group to these entities other than income taxes. This includes, in addition to amounts in respect of tax returns paid by mutual bank customers and withholdings made by the banks on customer transactions, tax payables accrued by the Group companies in respect of their indirect taxes, such as, for example, stamp duty, tax in lieu, tax on stock exchange contracts, VAT, local taxes, etc.

The item "Other" includes residual items not attributable to other specific items, and includes, among the main items, liabilities due to third parties for collections and/or withholdings such as, for example, amounts collected from mutual bank customers for the payment of utilities, the collection of insurance policies or the collection of amounts for prepaid cards.

The item "Balance of illiquid portfolio items" includes differences the value dates applied in the various accounts, which are generated during the accounting elimination of the items in respect of the crediting and debiting of portfolios under reserve and after collection, whose settlement date is after the reporting date.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

		Total 30/6/2020	Total 31/12/2019
A. Opening balance		**306,254**	**26,696**
B. Increases		**7,085**	**311,547**
B.1 Provisions for the period		3,163	16,974
B.2 Other increases		3,922	294,573
C. Decreases		**14,019**	**29,989**
C.1 Benefit payments		9,275	21,637
C.2 Other decreases		4,744	8,352
D. Closing balance		**299,320**	**306,254**
	Total	299,320	306,254

The table reports changes in the provision for termination benefits under the Italian severance pay mechanism (*trattamento di fine rapporto*, TFR). It does not report payments to external pension funds and the INPS treasury fund, which are presented in Section 8 “Other liabilities”.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 30/6/2020	Total 31/12/2019
1. Provisions for credit risk in respect of commitments and financial guarantees issued		205,585	201,431
2. Provisions for other commitments and guarantees issued		928	3,878
3. Company pension plans		-	-
4. Other provisions for risks and charges		294,444	240,391
4.1 legal disputes		97,193	96,101
4.2 personnel expense		59,748	53,748
4.3 other		137,503	90,543
	Total	500,957	445,700

Item 1. “Provisions for credit risk in respect of commitments and financial guarantees issued” includes provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued that are subject to the impairment rules of IFRS 9.

The sub-item 4.1 “legal disputes” mainly includes provisions for disputes over interest, compound interest, contract terms and banking and investment services and provisions for litigation and revocatory actions in bankruptcy and legal costs for debt collection .

The main provisions recognized under sub-item 4.2 “personnel expenses” include that for the employee loyalty bonus.

SECTION 13 - SHAREHOLDERS' EQUITY - ITEMS 120, 130, 140, 150, 160, 170 AND 180

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

As described in Part A Accounting Policies, Section 3 – Scope and methods of consolidation, pursuant to Law 145 of December 30, 2018 ("2019 Budget Act") the Parent Company, Iccrea Banca SpA, and the affiliated mutual banks under the Cohesion Contract represent a single consolidating entity. In the Group's shareholders' equity, share capital is therefore represented by the share capital of the Parent Company and that of the mutual banks. The intercompany portion, represented by shares of the Parent Company held by the mutual banks belonging to the Group under the provisions of the Cohesion Contract, is reported under treasury shares, as the shares were issued and subscribed by the single consolidating entity.

As at the reporting date, share capital was represented by 27,125,759 ordinary shares with a par value of €51.65 each, for a total of €1,401,045,452.

As at the reporting date, share capital of the mutual banks belonging to the Iccrea Cooperative Banking Group amounted to €913,303,804. In accordance with the bylaws of the mutual banks, their share capital is variable as it is composed of shares that in principle can be issued without limit.

13.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	(23,042,900)	-
A.2 Shares in circulation: opening balance	**4,082,859**	-
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	**4,082,859**	-
D.1 Treasury shares (+)	23,042,900	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

13.3 SHARE CAPITAL: OTHER INFORMATION

The Group share capital of €2,314,349,256, is represented only by ordinary shares (subscribed share capital, fully paid up) with the exception of a small portion of preference shares issued by a Group bank in the amount of about €1 million.

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to a total €8.6 billion.

In particular, earnings reserves amount to €8.6 billion and include, among the largest, the legal reserve in the amount of €10.1 billion as well as a negative IFRS 9 reserve of €1.6 billion.

13.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The item amounts to €30 million and is entirely represented by six Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. No new bond issues were carried out during the period.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 “NON-CONTROLLING INTERESTS”

	30/6/2020	31/12/2019
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	38,433	39,981
2. BCC Risparmio&Previdenza SGRpA	7,670	9,556
3. Coopersystem Società Cooperativa	17,973	13,169
Other equity investments	7,383	8,031
Total	**71,459**	**70,737**

NON-CONTROLLING INTERESTS: COMPOSITION

	30/6/2020	31/12/2019
1. Share capital	66,911	67,418
2. Share premium reserve	4,338	4,375
3. Reserves	(4,306)	(8,011)
4. Treasury shares	-	-
5. Valuation reserves	15	471
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	4,502	6,484
Total	**71,459**	**70,737**

14.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The consolidated capital of the Iccrea Cooperative Banking Group does not include equity instruments issued by Group companies that are not wholly owned

PART C
Information on the consolidated income statement

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/6/2020	Total 30/6/2019
1. Financial assets measured at fair value through profit or loss	**5,305**	**2,055**	**47**	**7,407**	**7,320**
1.1 Financial assets held for trading	603	-	47	649	1,404
1.2 Financial assets designated at fair value	1,404	64	-	1,468	1,807
1.3 Other financial assets mandatorily at fair value	3,297	1,992	-	5,289	4,109
2. Financial assets measured at fair value through other comprehensive income	**26,329**	**-**	**X**	**26,329**	**37,628**
3. Financial assets measured at amortized cost	**188,571**	**1,173,317**	**X**	**1,361,887**	**1,421,690**
3.1 Due from banks	10,897	3,244	X	14,141	10,261
3.2 Loans to customers	177,674	1,170,072	X	1,347,746	1,411,429
4. Hedging derivatives	**X**	**X**	**(18,126)**	**(18,126)**	**-**
5. Other assets	**X**	**X**	**1,226**	**1,226**	**1,048**
6. Financial liabilities	**X**	**X**	**X**	**80,677**	**58,133**
Total	**220,205**	**1,175,372**	**(16,853)**	**1,459,401**	**1,525,819**
of which: interest income on impaired financial assets	183	112,325	-	112,508	135,880
of which: interest income on finance leases	-	70,100	-	70,100	77,164

Interest on loans to customers include interest income in respect of loans to customers of €1.2 billion, mainly on loans to households and non-financial companies.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments.

Interest income on debt securities came to €220.2 million and mainly includes interest on securities issued by government entities.

The item “Financial liabilities” includes interest on funding operations at negative interest rates.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/6/2020	Total 30/6/2019
1. Financial liabilities measured at amortized cost	**(112,039)**	**(109,601)**	**X**	**(221,640)**	**(262,761)**
1.1 Due to central banks	(335)	X	X	(335)	(670)
1.2 Due to banks	(3,414)	X	X	(3,414)	(4,556)
1.3 Due to customers	(108,291)	X	X	(108,291)	(124,718)
1.4 Securities issued	X	(109,601)	X	(109,601)	(132,817)
2. Financial liabilities held for trading	**-**	**(101)**	**(138)**	**(239)**	**(87)**
3. Financial liabilities designated at fair value	**-**	**(199)**	**-**	**(199)**	**(676)**
4. Other liabilities and provisions	**X**	**X**	**(764)**	**(764)**	**(564)**
5. Hedging derivatives	**X**	**X**	**797**	**797**	**(23,583)**
6. Financial assets	**X**	**X**	**X**	**(26,389)**	**(19,975)**
Total	**(112,039)**	**(109,901)**	**(105)**	**(248,434)**	**(307,646)**
of which: interest expense on finance leases	(3,916)	(269)	-	(4,185)	(4,256)

The item 1.4 “Securities issued” regards interest expense accrued in the period on bonds and certificates of deposit measured at amortized cost.

The item 6. “Financial assets” includes interest on investment transactions at negative interest rates.

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
a) guarantees issued	12,347	13,574
b) credit derivatives	-	-
c) management, intermediation and advisory services:	162,395	156,402
1. Trading in financial instruments	1,480	1,043
2. foreign exchange	3,720	3,033
3. asset management	31,354	28,129
3.1 individual	6,946	3,874
3.2 collective	24,407	24,255
4. securities custody and administration	4,615	4,725
5. depository services	-	-
6. securities placement	14,799	15,750
7. order collection and transmission	10,562	9,298
8. advisory services	1,575	1,339
8.1 concerning investments	1,125	524
8.2 concerning financial structure	450	815
9. distribution of third-party services	94,293	93,085
9.1. asset management	3,648	4,655
9.1.1. individual	3,580	4,597
9.1.2. collective	67	58
9.2. insurance products	42,910	40,782
9.3. other	47,735	47,648
d) collection and payment services	97,374	122,306
e) servicing activities for securitizations	1,268	1,884
f) services for factoring operations	1,711	2,044
g) operation of tax collection offices	-	-
h) management of multilateral trading systems	-	-
i) holding and management of current accounts	232,122	246,508
j) other services	157,560	158,538
Total	664,777	701,256

The composition of fee and commission income reflects the operations of the Group's mutual banks, which are typically composed of customer current accounts (€232.1 million), collection and payment services (€97.4 million), distribution of third-party products and services (€94.3 million, including insurance products for €42.9 million), securities placement (€14.8 million) and order collection and transmission (€10.6 million). The decrease in fee and commission income for collection and payment services and for holding and management of current accounts compared with the same period of the previous year reflects the contraction in the Italian economy in the first half as a result of the COVID-19 emergency.

Fees and commissions concerning sub-item C.3 "asset management" regard asset management activities (€31.4 million) which are primarily performed by the Group asset management company.

"Other services" includes €100.9 million in fees related to the electronic money sector.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

		Total 30/6/2020	Total 30/6/2019
a) guarantees received		(925)	(1,326)
b) credit derivatives		-	-
c) management and intermediation services:		(5,575)	(6,584)
1. trading in financial instruments		(1,093)	(1,104)
2. foreign exchange		(299)	(161)
3. asset management:		(1,970)	(2,511)
3.1 own portfolio		(1,872)	(2,359)
3.2 third-party portfolio		(97)	(152)
4. securities custody and administration		(2,096)	(2,662)
5. placement of financial instruments		(117)	(146)
6. off-premises distribution of securities, products and services		-	-
d) collection and payment services		(7,272)	(21,799)
e) other services		(46,824)	(65,524)
	Total	**(60,596)**	**(95,233)**

"Other services" includes €38.8 million in fees and commission expense from the electronic money segment.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

		Total 30/6/2020		Total 30/6/2019	
		Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading		52	9	141	9
B. Other financial assets mandatorily measured at fair value		403	2,240	626	329
C. Financial assets measured at fair value through other comprehensive income		2,240	-	2,209	7
D. Equity investments		23	-	261	-
	Total	**2,718**	**2,250**	**3,237**	**345**

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €2 million, classified under financial assets measured at fair value through other comprehensive income.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**183**	**16,906**	**(2,781)**	**(5,294)**	**9,013**
1.1 Debt securities	68	10,768	(318)	(1,415)	9,104
1.2 Equity securities (other equity investments)	42	349	(1,119)	(527)	(1,255)
1.3 Units in collective investment undertakings	72	209	(1,344)	(157)	(1,221)
1.4 Loans	-	-	-	-	-
1.5 Other	-	5,580	-	(3,195)	2,385
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(63,756)**
4. Derivatives	**46,614**	**13,871**	**(34,684)**	**(26,641)**	**64,215**
4.1 Financial derivatives:	46,614	13,871	(34,684)	(26,641)	64,215
- on debt securities and interest rates	44,380	13,871	(34,567)	(25,257)	(1,573)
- on equity securities and equity indices	2,234	-	(117)	(1,384)	733
- on foreign currencies and gold	X	X	X	X	65,054
- other	1	-	-	-	1
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**46,796**	**30,777**	**(37,465)**	**(31,935)**	**9,473**

The net gain/(loss) on “Financial assets and liabilities: foreign exchange differences” reports the balance of changes in the value of financial assets and liabilities denominated in foreign currencies, regardless of the accounting portfolio in which they are recognized, which correlate with the amount reported under “Financial derivatives on foreign currencies and gold”.

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
A. Gain on:		
A.1 Fair value hedges	26,047	5,410
A.2 Hedged financial assets (fair value)	158,172	233,043
A.3 Hedged financial liabilities (fair value)	1,060	4,333
A.4 Cash flow hedges	144	585
A.5 Assets and liabilities in foreign currencies	455	-
Total income on hedging activities (A)	**185,878**	**243,371**
B. Loss on:		
B.1 Fair value hedges	(158,751)	(240,923)
B.2 Hedged financial assets (fair value)	(28,090)	(1,133)
B.3 Hedged financial liabilities (fair value)	(206)	(1,963)
B.4 Cash flow hedges	(146)	-
B.5 Assets and liabilities in foreign currencies	(853)	(411)
Total expense on hedging activities (B)	**(188,045)**	**(244,430)**
C. Net gain (loss) on hedging activities (A - B)	**(2,167)**	**(1,059)**
of which: net gain (loss) of hedges of net positions	-	-

As indicated in Part A “Accounting policies” of these notes to the financial statements, for the purposes of accounting for the results of hedging, the Group has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39.

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/6/2020			Total 30/6/2019		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	174,689	(8,562)	166,127	74,668	(13,140)	61,529
1.1 Due from banks	327	(41)	286	896	(39)	856
1.2 Loans to customers	174,361	(8,521)	165,840	73,772	(13,100)	60,672
2. Financial assets measured at fair value through other comprehensive income	64,227	(11,593)	52,634	45,234	(15,966)	29,268
2.1 Debt securities	64,227	(11,593)	52,634	45,234	(15,966)	29,268
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**238,915**	**(20,155)**	**218,760**	**119,902**	**(29,106)**	**90,797**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	860	(581)	278	1,873	(884)	989
Total liabilities (B)	**860**	**(581)**	**278**	**1,873**	**(884)**	**989**

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

The gain (loss) on disposal amounts to about €219 million and is mainly attributable to the disposal of debt securities measured at amortized cost and assets measured at FV through other comprehensive income.

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**1,124**	**19**	**(2,971)**	**(18)**	**(1,847)**
1.1 Debt securities	989	19	(2,808)	(18)	(1,818)
1.2 Loans	135	-	(163)	-	(29)
2. Financial liabilities	**112**	**30**	**(2)**	**-**	**140**
2.1 Securities issued	112	30	(2)	-	140
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**1,236**	**49**	**(2,974)**	**(18)**	**(1,706)**

The net loss for the item includes €1.8 million in respect of securities in which the liquidity of the Guarantee Scheme is invested.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**13,376**	**3,433**	**(25,723)**	**(2,304)**	**(11,218)**
1.1 Debt securities	571	848	(3,938)	(1)	(2,521)
1.2 Equity securities	3,696	1,360	(1,304)	(81)	3,671
1.3 Units in collective investment undertakings	3,013	1,213	(13,663)	(2,122)	(11,559)
1.4 Loans	6,097	11	(6,818)	(100)	(809)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**13,376**	**3,433**	**(25,723)**	**(2,304)**	**(11,218)**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total 30/6/2020	Total 30/6/2019
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Due from banks	**(10,163)**	**-**	**(1,809)**	**1,435**	**-**	**(10,536)**	**10,456**
- loans	(6,695)	-	(1,809)	1,117	-	(7,386)	9,356
- debt securities	(3,468)	-	-	318	-	(3,150)	1,100
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(361,952)**	**(32,547)**	**(780,162)**	**413,358**	**394,026**	**(367,277)**	**(274,112)**
- loans	(342,154)	(32,547)	(779,942)	412,429	394,026	(348,188)	(270,239)
- debt securities	(19,797)	-	(221)	928	-	(19,089)	(3,873)
of which: receivables purchased or originated credit-impaired	(5)	-	(137)	82	46	(14)	(936)
Total	**(372,115)**	**(32,547)**	**(781,971)**	**414,793**	**394,027**	**(377,813)**	**(263,657)**

The value adjustments reported in the “Stage 1 and 2” column regard collective writedowns on performing loans.

The value adjustments in the “Stage 3 - Other” column regard analytical writedowns of impaired past-due loans and those classified as unlikely to pay and bad loans, while those reported in the “Stage 3 - Writeoffs” column reflect extinguishing events, with the losses recognized following the definitive derecognition of the financial instruments.

Compared with the corresponding period of the previous year, net writedown for credit risk increased by €114 million, reflecting in part the more prudent measures taken by the Group in response to the possible negative effects of the health emergency on the economy. For a discussion of the adjustment of the impairment model adopted by the Group in response to COVID-19, please see the consolidated report on operations.

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)			Recoveries (2)		Total 30/6/2020	Total 30/6/2019
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Debt securities	(9,850)	-	(298)	314	151	(9,681)	2,373
B. Loans	-	-	-	-	-	-	(23)
- to customers	-	-	-	-	-	-	(23)
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(9,850)**	**-**	**(298)**	**314**	**151**	**(9,681)**	**2,350**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION – ITEM 140

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €2 million, includes the impact of modifications of medium/long-term loan contracts with customers that, in compliance with IFRS 9, do not produce the derecognition of the assets but rather involve the recognition in profit or loss of the changes in the contractual cash flows.

The amounts to not include the impact of contract modifications on expected losses, which is recognized under item 130 – Net losses/recoveries for credit risk.

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
1) Employees	(803,404)	(797,087)
a) wages and salaries	(557,695)	(551,557)
b) social security contributions	(138,466)	(137,865)
c) termination benefits	(20,806)	(18,609)
d) pension expenditure	(255)	(1,002)
e) allocation to employee termination benefit provision	(5,150)	(7,075)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(36,381)	(35,286)
- defined contribution	(36,282)	(35,252)
- defined benefit	(98)	(34)
h) costs from share-based payment plans	-	-
i) other employee benefits	(44,651)	(45,693)
2) Other personnel	(6,252)	(6,136)
3) Board of Directors and members of Board of Auditors	(24,035)	(23,551)
4) Retired personnel	-	(36)
Total	(833,691)	(826,810)

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
Information technology	(101,055)	(103,545)
Property and movables	(43,251)	(42,247)
- rental and fees	(7,502)	(8,634)
- ordinary maintenance	(30,702)	(28,348)
- security	(5,047)	(5,265)
Goods and services	(85,897)	(83,226)
- telephone and data transmission	(32,872)	(24,458)
- postal	(14,875)	(15,030)
- asset transport and counting	(8,539)	(7,894)
- electricity, heating and water	(16,064)	(17,300)
- transportation and travel	(5,339)	(9,646)
- office supplies and printed materials	(6,778)	(7,433)
- subscriptions, magazines and newspapers	(1,431)	(1,465)
Professional services	(76,946)	(92,767)
- professional fees (other than audit fees)	(27,426)	(32,894)
- audit fees	(1,932)	(4,425)
- legal and notary costs	(31,009)	(35,507)
- court costs, information and title searches	(16,578)	(19,940)
Administrative services	(23,177)	(18,668)
Insurance	(11,386)	(11,318)
Promotional, advertising and entertainment expenses	(15,443)	(30,775)
Association dues	(15,872)	(19,757)
Donations	(4,152)	(2,368)
Other	(30,157)	(50,754)
Indirect taxes and duties	(231,291)	(239,864)
Total	**(638,627)**	**(695,288)**

Other administrative expenses include contributions to the National Resolution Fund (BRRD) totaling €70 million and the contribution to the Deposit Guarantee Scheme for about €32 million, reported among indirect tax and duties.

Other administrative expenses, totaling €638.6 million, decreased by €56.7 million compared with the corresponding period of the previous year, mainly reflecting:

- a reduction in the project costs incurred 2019 for the establishment of the Cooperative Banking Group;
- a reduction in costs incurred in certain expense categories during the lockdown (e.g. travel and entertainment, etc.);
- a reduction in the charge for the ordinary contribution to the Deposit Guarantee Scheme (DGS) accounted for under this item. Part of that charge, while pertaining to 2020 (€35 million), was accounted for under provisions for risks pending a decision of the European Commission concerning the petition filed through the industry association to reduce the target level of the funds of the DGS for mutual banks from 0.8% of guaranteed deposits to 0.5%.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

13.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	30/6/2020		
	Provisions	Reallocation of excess	Total
Commitments to disburse funds Stage 1	(7,721)	15,742	8,021
Commitments to disburse funds Stage 2	(6,699)	2,818	(3,881)
Commitments to disburse funds Stage 3	(8,684)	4,706	(3,978)
Financial guarantees issued Stage 1	(3,317)	6,444	3,127
Financial guarantees issued Stage 2	(5,990)	5,707	(283)
Financial guarantees issued Stage 3	(13,101)	8,842	(4,259)
Total	**(45,511)**	**44,257**	**(1,253)**

13.2 NET PROVISIONS IN RESPECT OF OTHER COMMITMENTS TO DISBURSE FUNDS AND GUARANTEES ISSUED: COMPOSITION

	30/6/2020		
	Provisions	Reallocation of excess	Total
Net provisions in respect of other guarantees issued	(18,413)	15,696	(2,717)

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/6/2020		
	Provisions	Reallocation of excess	Total
Legal disputes	(12,615)	6,339	(6,275)
Other	(38,876)	1,069	(37,808)
Total	**(51,491)**	**7,408**	**(44,083)**

SECTION 14 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 210

14.1. NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(91,565)	-	1	(91,564)
- Owned	(64,057)	-	1	(64,056)
- Right-of-use assets in respect of leases	(27,508)	-	-	(27,508)
A.2 Investment property	(1,081)	(99)	-	(1,180)
- Owned	(1,081)	(99)	-	(1,180)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(294)	-	(294)
B. Assets held for sale				
- Operating assets	-	-	-	-
- Investment property	-	(355)	-	(355)
- Inventories	-	-	-	-
Total	**(92,646)**	**(748)**	**1**	**(93,393)**

SECTION 15 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 220

15.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned	(9,786)	-	3	(9,783)
- generated internally by the Bank	(409)	-	-	(409)
- other	(9,378)	-	3	(9,375)
A.2 Acquired under finance leases	-	-	-	-
Total	**(9,786)**	**-**	**3**	**(9,783)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/6/2020	Total 30/06/2019
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(14,849)	(16,204)
Reductions in assets not attributable to separate line item	(391)	(1,499)
Prior-year expenses not attributable to separate line item	(5,094)	(4,788)
Costs of outsourced services	(19)	(79)
Settlement of disputes and claims	(785)	(912)
Amortization of expenditure for leasehold improvements	(5,480)	(3,115)
Other charges – extraordinary transactions	(204)	(49)
Robbery and theft	(188)	(211)
Other expenses	(7,966)	(14,261)
Consolidation adjustments	-	(7,167)
Total	**(34,977)**	**(48,285)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
A) Cost recovery	**142,529**	**150,783**
Recovery of taxes	100,895	98,432
Recovery for services to Group companies	-	19
Recovery of sundry charges	20,401	27,246
Insurance premiums	2,602	899
Property rental income	7	72
Recovery of costs from customers	5,776	6,856
Recovery of costs on bad loans	12,847	17,259
B) Other income	**58,260**	**55,897**
Insourcing revenues	4,530	68
Property rental income	1,794	1,781
Reductions in liabilities not attributable to separate line item	387	666
Prior-year income not attributable to separate line item	7,014	9,657
Other income from finance leases	6,602	7,795
Other income - extraordinary transactions	162	712
Other income	26,957	20,318
Accelerated processing fees	10,701	14,917
Consolidation adjustments	112	-
Total	**200,789**	**206,697**

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €100.9 million, mainly regard current accounts, credit cards, savings passbooks and certificates of deposit.

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
1) Joint ventures		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	-	-
1. Writedowns	-	-
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**-**	**-**
2) Entities under significant influence		
A. Gains	1,212	3,926
1. Revaluations	1,212	3,926
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	(1,019)	(978)
1. Writedowns	(1,019)	(978)
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**193**	**2,948**
Total	**193**	**2,948**

The item reports the financial impact of the equity measurement of investments in associates.

SECTION 18 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 260

18.1 NET ADJUSTMENT TO FAIR VALUE (OR REVALUED AMOUNT) OR ESTIMATED REALIZABLE VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS: COMPOSITION

	Revaluations (a)	Writedowns (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**168**	**(10,943)**	**-**	**-**	**(10,775)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	168	(10,813)	-	-	(10,645)
- Owned	168	(10,813)	-	-	(10,645)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	(130)	-	-	(130)
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**168**	**(10,943)**	**-**	**-**	**(10,775)**

The item reports gains/losses on the measurement of the properties held by the consolidated real estate investment funds in the amount of €10.6 million.

SECTION 20 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 280

20.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
A. Property	(49)	3,087
- Gains on disposal	104	3,677
- Losses on disposal	(153)	(591)
B. Other assets	(261)	94
- Gains on disposal	110	332
- Losses on disposal	(371)	(238)
Net result	**(310)**	**3,180**

SECTION 21 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 300

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
1. Current taxes (-)	(25,594)	(23,574)
2. Change in current taxes from previous period (+/-)	3,326	1,960
3. Reduction of current taxes for the period (+)	4,009	4,735
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	3,647	3,038
4. Change in deferred tax assets (+/-)	(33,496)	(38,101)
5. Change in deferred tax liabilities (+/-)	(346)	1,402
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(48,455)**	**(50,540)**

SECTION 23 - NET PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS - ITEM 340

23.1 BREAKDOWN OF ITEM 340 "PROFIT (LOSS) PERTAINING TO NON-CONTROLLING INTERESTS"

	30/6/2020	30/6/2019
Consolidated equity investments with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	(1,536)	(1,740)
2. BCC Risparmio&Previdenza SGRpA	1,196	869
3. Coopersystem Società Cooperativa	4,802	3,522
Other equity investments	40	109
Total	**4,502**	**2,760**

PART D
Consolidated comprehensive income

DETAILED BREAKDOWN OF CONSOLIDATED COMPREHENSIVE INCOME

		30/6/2020	30/6/2019
10.	**Net profit (loss) for the period**	**126,625**	**181,379**
	Other comprehensive income not recyclable to profit or loss	**(1,695)**	**(17,241)**
20.	Equity securities designated as at fair value through other comprehensive income:	(5,483)	2,723
	a) fair value changes	(10,141)	2,608
	b) transfers to other elements of shareholders' equity	4,658	118
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(551)	(22,582)
80	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	4,339	2,617
	Other comprehensive income recyclable to profit or loss	**(30,376)**	**226,983**
110.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(6,844)	625
	a) fair value changes	334	(1,048)
	b) reversal to income statement	(6,819)	1,673
	c) other changes	(359)	-
	of which: result on net positions	-	-
140.	Hedging instruments (undesignated elements):	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	(36,375)	333,008
	a) fair value changes	(30,734)	152,178
	b) reversal to income statement	(5,124)	25,392
	- adjustments for credit risk	8,357	6,141
	- gain/loss on realization	(13,481)	19,251
	c) other changes	(517)	155,413
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Valuation reserves of equity investments accounted for with equity method:	(771)	2,447
	a) fair value changes	(771)	2,447
	b) reversal to income statement	-	-
	- impairment adjustments	-	-
	- gain/loss on realization	-	-
	c) other changes	-	-
180.	Income taxes on other comprehensive income recyclable to profit or loss	13,614	(109,072)
190.	**Total other comprehensive income**	**(32,071)**	**209,741**
200.	**Comprehensive income (item 10+190)**	**94,553**	**391,120**
210.	Consolidated comprehensive income pertaining to non-controlling interests	4,045	3,452
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**90,508**	**387,668**

PART E
Risk and risk management policies

INTRODUCTION

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

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The Risk Management function operates within the internal control system.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

The organizational structure of the Risk Management function of the Parent Company of the Iccrea Cooperative Banking Group includes the following structures:

- a "Group Risk Management" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the estimation, integration and management of specific risks, (ii) supports the process of defining the Group risk appetite, identifying any risk mitigation measures where necessary and/or advisable and (iii) develops Group-level stress testing exercises and contributes to the preparation of the Group restructuring plan;
- a "Mutual Bank Risk Management" unit, which represents the "control center" for the risk profile of the individual affiliated banks, with responsibility for controlling and activating Early Warning System processes (for more on this, see the report on operations), in addition to representing the heads of the territorial Risk Management units and collaborating with Group Risk Management in defining the methodological and operational aspects of the Risk Management process, with particular regard to the aspects concerning the affiliated banks;
- units directly reporting to and supporting the CRO, Validation and Support and Coordination of Interdepartmental Initiatives).

Serving within the Parent Company's "Mutual Bank Risk Management" are area coordinators (the heads of the three Mutual Bank Risk Management Coordination units) and a "Risk Management Territorial Specialist", representing the local Risk Management specialist. In this context, the Risk Management (RM) Territorial Specialist, with the contribution of associates if appropriate, supports the Risk Management units of the affiliated banks in determining and adopting strategies, policies and processes for the identification, assessment and control of the risks specified by the Risk Management function at the Iccrea Cooperative Banking Group level.

The main duties performed by the Risk Management function are the following:

- defining and developing the framework for the assumption and management of risks pertaining to the Group, which is composed of (i) organizational structures and corporate processes (operating, administrative and business), including line controls; (ii) risk governance policies (policies, limits, responsibilities); and (iii) methodologies and risk measurement and assessment criteria. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations and the guidelines of the supervisory authorities, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group:
- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated and individual levels and, with the support of the affiliated banks and Group companies, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- monitoring the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Mechanism. In this area, the Risk Management function:

- handles the development and updating of the methodological framework and develops tools for managing the Guarantee Mechanism, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
- is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.

- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;
  - 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 transactions of greater importance, expressing a prior opinion on their consistency with the Risk Appetite Statement and the relevant Group policies;
  - assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
  - assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
  - reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding 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 Parent Company. 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, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of exposures and 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 Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed and adopted by the Group reflects the specific features of the ICBG, whose participatory mechanisms are based on a Cohesion Contract, signed by the affiliated banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for the entire Group.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Cooperative Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the Group and with the internal stability mechanisms. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;
- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the Risk Governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group, as discussed in the report on operations.

SECTION 1 - RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	1,839,404	2,763,239	417,736	3,026,205	140,721,208	148,767,792
2. Financial assets measured at fair value through other comprehensive income	17	2	-	10	9,213,853	9,213,881
3. Financial assets designated as at fair value	361	7	-	105	387,552	388,025
4. Other financial assets mandatorily measured at fair value	16	-	311	40,029	784,431	824,787
5. Financial assets held for sale	-	-	-	-	-	-
Total 30/6/2020	**1,839,798**	**2,763,248**	**418,047**	**3,066,349**	**151,107,044**	**159,194,485**
Total 31/12/2019	**1,854,447**	**3,058,031**	**299,292**	**3,203,961**	**137,649,381**	**146,065,113**

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

	Impaired assets				Performing assets			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	10,614,285	5,593,907	5,020,378	388,772	144,647,595	900,182	143,747,414	148,767,792
2. Financial assets measured at fair value through other comprehensive income	30	12	18	-	9,227,737	13,874	9,213,863	9,213,881
3. Financial assets designated as at fair value	496	127	369	-	X	X	387,657	388,025
4. Other financial assets mandatorily measured at fair value	346	19	327	-	X	X	824,460	824,787
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30/6/2020	**10,615,157**	**5,594,065**	**5,021,092**	**388,772**	**153,875,332**	**914,056**	**154,173,393**	**159,194,485**
Total 31/12/2019	**10,623,858**	**5,412,087**	**5,211,771**	**411,439**	**140,584,118**	**946,670**	**140,853,342**	**146,065,113**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	1,201	432	327,033
2. Hedging derivatives	-	-	16,437
Total 30/6/2020	**1,201**	**432**	**343,470**
Total 31/12/2019	**1,161**	**3,043**	**200,873**

* Values to be reported for information purposes

SECTION 2 – RISKS WITHIN SCOPE OF PRUDENTIAL CONSOLIDATION

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca determines credit risk management policies at the Group level, setting guidelines and coordinating their implementation within the individual entities. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Iccrea Cooperative Banking Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Bank of Italy Circular No. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion

Contract, defines the strategies, policies and principles for assessing and measuring risks and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With regard to the lending process, the Parent Company defines the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group’s performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be “monitored”, the CLO area monitors the positions of the Parent Company and the companies within the direct scope that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the “most relevant” positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated (i) with the counterparty as well as the economic context in which it operates; (ii) with the purpose and characteristics of the transaction to be financed; (iii) with the guarantees available; and (iv) with other forms of credit risk mitigation.

The analysis of the counterparty is conducted so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);

- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system), and is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) No. 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2019. This analysis was carried out on a sub-portfolio of performing loans and securities representative of the Group, given the general similarity of the nature, characteristics and composition of the portfolio across the various entities of the Iccrea Cooperative Banking Group, increasing the probability of occurrence of the worst macroeconomic scenario used at the end of 2019 for the determination of the ECL by 50%. The results show that, at the consolidated level, this simulated measure (based on the conditions prevailing at the reporting date) shows an increase in the average portfolio coverage of 5.6 bps compared with that at December 31, 2019.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit Unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework, the first operational application of which was launched at the end of the first half of the year for the entire Group, undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

The Group has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered “impaired” under IAS 39.
- application of “point-in-time” formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following stages (or buckets):

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption (PD less than 0.30%), or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold for the low credit risk exemption; and (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date. In the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted. They are governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold of 0.30% at the reporting date;

- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due or positions under observation (watchlist);

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the “through-the-cycle” PD into (or calculation of) the “point-in-time” (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal “satellite” models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

In order to make the obtain a forward-looking and lifetime LGD, the macroeconomic multipliers (determined using internally estimated satellite models) are applied for each reference period in the first three years, and estimated for the following years as an average of the multipliers for the first three years. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

In order to obtain measures of the risk parameters that reflects future macroeconomic conditions, we use internally estimated “satellite” models differentiated by counterparty type that “explain” the relationship linking the target variable (e.g. historically observed default rates) to a set of “explanatory” macroeconomic variables. The forecasts for the target variable for each of the scenarios adopted, which are obtained by extrapolation using the satellite model on the basis of the expected values of the macroeconomic variables, make it possible to obtain multipliers to be applied to the risk parameters to determine lifetime measures.

UPDATING AND ADJUSTMENT OF IFRS 9 IMPAIRMENT MODEL IN RESPONSE TO COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit loss, ECL).

The sharp discontinuity in market conditions generated by the effects of COVID-19, against a background of extraordinary uncertainty, especially looking forward, has required the implementation of a series of extraordinary measures to incorporate the potential impacts of the pandemic into the impairment model, specifically incorporating the forecasts for the main macroeconomic and financial variables developed by leading external providers, public agencies or supervisory authorities into the risk metrics. Compared with the medium-term scenarios released in the months preceding the health emergency, the scenarios developed subsequently are characterized by a sharp deterioration in the economy in 2020, with recovery beginning in 2021.

At the same time, the introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws (Decree Law 18 of March 17, 2020- the "Cure Italy Decree" and Decree Law 23 of April 8, 2020, the "Liquidity Decree"), the measures agreed with industry associations (the ABI Business Recovery moratorium, the ABI Consumer moratorium) and the private initiatives implemented by the individual entities, led to the implementation of additional methodological changes in the IFRS 9 impairment framework in order to reflect its mitigating impact in the calculation of expected credit losses.

More specifically, the adjustments to the impairment model linked to the COVID-19 emergency, which were reflected in the calculation of expected credit losses for the first half of 2020, concerned:

- the use of the most recent available macroeconomic scenarios, using forward-looking projection measures based on the calculations published by the Bank of Italy.[26] More specifically, in order to adapt the IFRS 9 methodological framework to account for the prevailing pandemic conditions, and in view of the difficulty of modeling its particular characteristics using ordinary tools (so-called satellite models), use was made of implicit analytical coefficients differentiated by geographical area and economic sector, drawn from the scenario forecasts of the Bank of Italy, prepared by an external provider (Prometeia);
- the inclusion of the impacts connected with the implementation of the customer support measures referred to above, with particular regard to the loan repayment moratoriums and measures to support corporate liquidity. Specifically, as part of the IFRS 9 impairment framework, the effects of the application of the moratorium measures, in accordance with the associated guidelines defined by the European Banking Authority, have been translated, with specific and exclusive reference to exposures subject to these measures, into a suspension of the qualitative (30 days past due) and quantitative (increase in PD) criteria for assessing whether a significant increase in credit risk (SICR) has occurred in order to avoid their potential slippage into stage 2. The treatment of liquidity support measures provides for the application of appropriately specified coverage levels to take account of the mitigating effects on credit risk of the presence of specific guarantees to support such operations.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of unsecured guarantees and credit derivatives.

[26] See "*Macroeconomic Projections for the Italian Economy - Eurosystem staff macroeconomic projections*", Bank of Italy, June 5, 2020.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

- the binding nature of the legal commitment between the parties and its enforceability in court;
- the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
- the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
- the timeliness with which the guarantee may be liquidated in the event of default;
- the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

According to the EBA definition, non-performing exposures satisfy either or both of the following criteria:

- material exposures which are more than 90 days past-due;
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Impaired exposures are classified by increasing degree of severity in the following three categories:

- impaired past due and or overlimit exposures: on- and off-balance sheet exposures other than those classified as defaulted or unlikely to pay exposures that as of the reference date of the report have been continuously past due or overlimit by more than 90 days and exceed the materiality threshold of 5%;
- unlikely to pay (UTP) exposures: on- and off-balance sheet exposures for which the institution considers that the obligor is unlikely, without recourse to actions such as realizing security, to pay its credit obligations (principal and/or interest);
- default: on- and off-balance sheet exposures to an obligor in a state of insolvency (even if not declared by a court) or a substantially comparable situation, regardless of any expected loss.

The regulations also require that individual exposures, regardless of the classification of the counterparty, be identified as forborne exposures when they have been granted forbearance measures that meet the regulatory definition of such measures.

Such forborne exposures are in turned distinguished into:

- performing forborne, if the counterparty is classified as performing at the time the forbearance measures are granted and such measures do not require that the counterparty be classified differently;
- non-performing forborne, if the counterparty is already classified in one of the categories of non-performing at the time the forbearance measures are granted and such measures require that the counterparty be classified as non-performing.

Any other types of customer segmentation adopted by the affiliated banks and companies within the direct scope of consolidation for internal management purposes only (for example “watchlist exposures”) in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage “3” is underscored, which occurs when the customer’s status changes to “non-performing”.

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company’s Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are subject to management, measurement and control in accordance with the principles discussed in the previous sections. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described above.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

Renegotiations of financial instruments that result in a change in the contractual conditions may be associated with:

- commercial initiatives that may be defined specifically for each customer or applied to categories of customer, perhaps as a result of dedicated initiatives promoted by public bodies or banking associations;
- the renegotiation of financial instruments prompted by the debtor's financial difficulties (forbearance).

The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. Forbearance measures should always aim to return the exposure to a situation of sustainable repayment.

The status of forborne must be associated with the individual exposure. Accordingly, a forborne exposure can be classified as performing forborne or non-performing forborne depending on the status of the counterparty to which these exposures are attributable.

In order to classify new concessions granted to a customer as forbearance measures, the following must occur:

- compliance of the measures with the notion of "forbearance" provided for in Regulation (EU) 227/2015;
- the borrower must currently or prospectively be in a situation of financial difficulty at the date of the measure is approved.

The applicable regulations define concessions as potentially identifiable as forbearance if:

- the measures entail a modification of the terms and conditions of a contract, whether as the result of the exercise of clauses envisaged in the contract itself or following negotiations with the Group company concerned (renegotiations);
- the measures entail the grant of new financing to a borrower in financial difficulty to enable discharge of the pre-existing obligation (refinancing): total or partial refinancing of an existing exposure occurs when a new credit line allows the borrower to discharge the obligations deriving from pre-existing loan agreements.

Concessions qualifying as forbearance measures, regardless of the form adopted (renegotiation or refinancing) must therefore give the borrower more favorable treatment compared with to the contractual terms originally agreed with the Group company or compared with the terms conditions that would be granted to other borrowers with the same risk profile. Furthermore, they must be exclusively intended to enable the borrower to honor the new commitments and deadlines.

Forbearance measures may be short- or long-term depending on the temporary or permanent nature of the financial difficulty. In particular, Short-term forbearance measures are defined as restructured repayment conditions of a temporary nature that do not address the resolution of outstanding arrears and generally do not exceed two years.

An assessment of the financial situation of the debtor should not be limited to exposures with apparent signs of financial difficulties. An assessment of financial difficulties should also be conducted for exposures where the debtor does not have apparent financial difficulties, but where market conditions have changed significantly in a way that could impact the ability to repay.

The assessment of any financial difficulties on the part of a debtor should be based on the situation of the debtor only, disregarding collateral or any guarantees provided by third parties. Furthermore, the notion of "debtor" should include all the natural and legal persons belonging to the debtor's group: the assessment must comprise such persons in order to determine whether situations of difficulty at the group level could compromise the capacity of the debtor to fulfill its obligations to the Group lender.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.4 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	16	X	-	16	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	971	X	519	452	-
- of which: forborne exposures	302	X	208	95	-
c) Impaired past due exposures	117	X	1	116	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	1,367	283	1.084	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	9,523,.640	22,217	9,501,423	-
- of which: forborne exposures	X	-	-	-	-
Total A	1,407	9,525,006	23,228	9,503,185	-
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	1,056,038	45,681	1,010,357	-
Total B	-	1,056,038	45,681	1,010,357	-
Total A+B	1,407	10,581,044	68,909	10,513,542	-

* Values to be reported for information purposes

A.1.5 PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	5,533,088	X	3,693,306	1,839,782	373,679
- of which: forborne exposures	1,100,505	X	635,035	465,470	62,522
b) Unlikely to be repaid	4,577,132	X	1,814,335	2,762,797	15,093
- of which: forborne exposures	2,535,873	X	923,574	1,612,299	13,169
c) Impaired past due exposures	503,829	X	85,898	417,931	-
- of which: forborne exposures	88,002	X	14,673	73,329	-
d) Performing past due exposures	X	3,200,599	135,324	3,065,275	-
- of which: forborne exposures	X	204,241	19,561	184,680	-
e) Other performing assets	X	142,397,164	756,317	141,640,846	287
- of which: forborne exposures	X	1,500,248	101,588	1,398,660	-
Total A	10,614,048	145,597,763	6,485,181	149,726,630	389,059
B, Off-balance-sheet exposures					
a) Impaired	452,900	X	81,277	371,623	-
b) Performing	X	25,148,205	75,545	25,072,660	-
Total B	452,900	25,148,205	156,822	25,444,284	-
Total A+B	11,066,949	170,745,968	6,642,003	175,170,914	389,059

* Values to be reported for information purposes

1.2 MARKET RISKS

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an “other” business model, namely “held for sale”, i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Market risks are managed using advanced measurement and monitoring methods. The Risk Management unit is responsible for the development, use and maintenance of these measurement procedures.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:

  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
  - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

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

Deterministic metrics

Sensitivity and Greeks of options

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

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega (sensitivity to inflation): a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;

- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

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

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

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. 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;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

QUANTITATIVE DISCLOSURES

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

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

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

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

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

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €2.5 million in 1-day VaR with a 99% confidence level has been established. From the start of the year, the risk profile of all trading operations never breached the RAS limit. The Market Risk Policy sets consistent VaR limits in terms of total operations and in terms of sub-limits for the various books, measured using the same VaR method.

In the last 250 trading days, the average VaR of the trading book was €0.37 million, with a minimum of €0.19 million and a maximum of €0.92 million (registered on March 5, 2020), which is below the overall risk limit for that specific category of operations, which was €2 million for the head of Finance.

At June 30, 2020 the VaR was €0.37 million.

Daily VaR Trading Book	Notional (in €/millions) at 30/6/2020	VaR	
		Limit	Risk profile
Iccrea Banca	18,264	2.00	0.37

The following table reports sensitivities by risk factor at June 30, 2020, which correspond to the change in the market value of the trading book as the risk factors change (see section “Deterministic Metrics, Sensitivity and Greeks of Options”).

Risk factor	Sensitivity value (in €)	Note
Interest rates	127,261	Sensitivity calculated in relation to 1 bp change
Inflation rates	100	
Credit spreads	-7,371	
Equity	182,532	Sensitivity calculated in relation to 1% change in share/equity index

1.2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions), or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB (Interest Rate Risk arising from Banking Book) Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.
- earnings approach: this seeks to assess the potential effects of adverse interest rate variations on the profitability of the banking book, i.e. net interest income, and on fair value changes recognized through profit or loss or OCI. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics adopted in the economic value approach to measure the sensitivity of the economic value of the banking book (∆EVE – EVE sensitivity) are based on the following approaches:

- Full evaluation: the change in the expected value of the banking book is calculated using an approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").
- Duration analysis: the change in the expected value of the banking book due an interest rate shock is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;

In determining EVE, equity must be excluded from the calculation in order to measure the potential change in value of free capital following changes in the yield curves.

The metrics used in the current earnings approach to measures the sensitivity of the net interest income of the banking book (∆NII – NII sensitivity) are based on the following approaches:

- Full evaluation: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a "base" scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs);
- Earnings at risk: a metric aimed at measuring the loss of profitability due to changes in interest rates, considering, in addition to the impact on net interest income, the effects on changes in the fair value of the instruments recognized (depending on their accounting treatment) in profit or loss or directly in equity.
- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Bank may be exposed. Each can be associated with internally developed or regulatory scenarios.

- gap risk: in order to monitor this category of risk, parallel and non-parallel shocks of the risk-free yield curves are used in order to assess the impact on economic value and net interest income; in particular:
  - repricing risk: in order to monitor this risk category, parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
  - yield curve risk: in order to monitor this risk category, non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged by the reference guidelines, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Bank's banking book and the subsequent:
  - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
  - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyzes of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system of limits (EWS, RAS and Risk Limits) is defined by the Parent Company in accordance with its management and coordination role and implemented through an cascading process with the subsidiaries (where applicable), in line with the risk management model adopted.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;

- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

QUANTITATIVE DISCLOSURES

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

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

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

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at June 30, 2020 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 289	- 161
Impact on net interest income	- 67	+ 371

1.2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

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

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated. The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

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.

1.3 DERIVATIVES AND HEDGING POLICIES

1.3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, the Group applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by their respective competent bodies. These limits concern the exposure of the Group both in terms of net interest income sensitivity and economic value sensitivity.

In particular, all the hedges established by the affiliated banks with the Parent Company with respect to which the latter enters into an identical and opposite position in derivatives with the market are represented in the same way at the consolidated level. Accordingly, hedges originally established by the affiliated banks regard portfolios of loans to customers, securities holdings and, to a marginal extent, individual loans and bonds in issue are confirmed. On the other hand, transactions involving the hedging of loans to customers or securities and bonds of a smaller size (mainly by notional amount) between the affiliated banks and the Parent Company, provide for the latter to manage the consequent risk position on a "synthetic" basis, which is reported in the consolidated financial statements through the designation of generic fair value hedges established in respect of interest rate risk. The life cycle of a hedge accounting relationship starts with the so-called "designation" phase. With the designation of the hedging relationship, the company identifies the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged and in compliance with the principles established in the Group Hedging Policy, which defines the methods of measuring effectiveness by type of hedge.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes attributable to the hedged risk or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31).

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of financial assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets or liabilities.

The Group adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation – deposits, bond issues, loans and other financing) and to portfolios of fixed-rate and variable-rate financial instruments (government securities, corporate debt securities, loans and bonds issued).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings and bonds issued, while macro hedging is applied to portfolios of fixed-rate loans, variable-rate loans and a single portfolio of debt securities classified as FVOCI under the HTCS business model.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), and asset and yield swaps (ASW) entered into with third parties to ensure compliance with the requirement to externalize risk, which is necessary to qualify for hedge accounting at the consolidated level, in compliance with the provisions of paragraph 73 of IAS 39. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

The Group adopts specific hedges of assets (micro cash flow hedges) represented by fixed- and variable-rate (CTTs) government securities and securities linked to European inflation and specific hedges of liabilities, mainly to transform fixed-rate funding denominated in foreign currency (specifically, US dollars) into fixed-rate funding in euros. The stabilization intent is substantiated by establishing the funding conditions with regard to both the level of exchange rates and the synthetic flow of interest payments obtained through the hedge.

The derivatives used to hedge foreign-current bonds are cross currency swaps (CCS) not listed on regulated markets, transacted with third-party counterparties on OTC markets.

At June 30, 2020, a forward sale of government securities falling under the accounting model in question was outstanding, designating the variability of cash flows deriving from a highly probable forecast transaction as the hedged risk. In particular, the fixing – at the trade date - of the sale price of the hedged instrument makes that type of transaction suitable for inclusion in the cash flow hedge model due to the stabilization of cash flows with respect to the risk that the price of the security could change in the opposite direction with respect to the Bank's strategic intention. These transactions are carried out using combinations of purchases and sales of put and call bondoptions, so as to financially replicate a forward contract. These derivative instruments are traded on OTC circuits.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the first half of the year, the Group did not undertake hedging of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods ("cumulative scenario method" or "linear regression method with curve simulation");
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of partial repayments or full extinguishment of loans or the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

At the Group level, hedged items designated as being in a hedge accounting relationship using micro and macro hedges are government securities, corporate securities, bond issues of the Parent Company, bond issues by the affiliated banks and loans to customers in the form of residential mortgages and leases as well as a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and bond options as hedging instruments. Where present, interest rate and inflation risk are hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

The Group currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. With regard to the latter, the effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for fixed-rate loans to customers and secured loans to banks, mainly using amortizing IRSs and OISs as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment. For macro hedges of loans, the capacity of the portfolio subject to designation is verified with respect to the notional amount outstanding at the reporting date of the corresponding hedging derivative. Having passed this first test, effectiveness is quantified both retrospectively and prospectively by applying the dollar offset method. For macro hedges of leases, the criterion of the lower between the nominal value of the hedged item and the notional of the hedging derivative is adopted for the purpose of measuring the change in the fair value of the hedged item, performing the retrospective effectiveness test by applying volatility risk reduction method.

Variable-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for variable-rate loans to customers, using caps, floors or collars with an amortizing notional as hedging instruments. The hedged risk is the risk of a rise (decrease) in rates above (below) the strike of the implicit caps (floors) as well as the probability that the benchmark rate is greater (lower) or approaches the strike rate itself. The hedged rate is the contractually determined strike rate for the individual loans granted by the Bank. The identity of the individual loans making up the hedged portfolio in terms of strike rate level compared with Euribor flat (net of the spread), indexing parameter, date of observation of the indexing parameter, frequency of the individual caplet (frequency of repayments of the amortization plan) is a necessary condition for designation as a macro hedge. For micro hedges, the effectiveness tests are carried out using the dollar offsetting method for the retrospective profile and the cumulative scenario for the prospective profile. For macro hedges of loans, the capacity of the designated portfolio is checked first of all with respect to the notional value, at the reporting date, of the corresponding hedge derivative and therefore, after passing this first test, effectiveness is quantified retrospectively and prospectively by applying the dollar offsetting method.

1.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for in the Cohesion Contract, the Parent Company defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored at the consolidated and individual levels using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Group's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the Group's liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder, in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels at medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

- The first approach identifies cash flows based on the contractual maturities of the items considered;
- The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (EWS, RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Second-level controls, which are performed by Risk Management, are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms, in collaboration with the management functions, should the specified limits be exceeded. Control activities is based on the assessment and measurement of the positioning of the risk indicators established by the Risk Governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the established risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the “magnitude” of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The Group’s liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group’s business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;

- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the “near-default” scenarios to be taken in adverse situations in order to limit the Group’s exposure to liquidity risk;
- verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank’s ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

1.5 OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

In view of the operations that characterize the Iccrea Cooperative Banking Group, it is exposed to operational risks across the entire organization.

Within the regulatory framework, the deregulation and the globalization of financial and payment services, together with the progressive refinement of the financial technology supporting transactions, are making the activities of the entities belonging to the Group, and thus the associated operational risk engendered by ordinary operations, increasingly complex. The increased complexity of the Group with the arrival of the affiliated banks as well as the growing use of highly automated technology under way in the Group can, in the absence of modifications of the control system, transform the risk of manual errors and data processing errors into the risk of significant system malfunctions, given the increasing recourse to integrated IT infrastructure and applications.

In addition, the growing use of electronic money and electronic or on-line payments generates other potential risks (for example, internal and external fraud, system security, customer data processing and IT and cyber risks) whose comprehensive mastery and mitigation, both upstream and in terms of response and containment, represents a strategic and enabling factor in the development of the business and a prerequisite for ensuring compliance with regulatory and payment-circuit requirements.

In addition, the presence of banks and financial companies in the Group, delivering services on a mass scale (both within the Group and to firms and the public) makes it necessary to ensure an appropriate structure and constant evolution of the system of internal controls and constant attention to preventing the risk of rules violations, incurring administrative penalties, etc.

The various types of operational risk to which the Iccrea Group is structurally exposed include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Group is subject.

GOVERNANCE AND ORGANIZATIONAL MODEL

In 2018, the Board of Directors of the Parent Company adopted a new organizational model for the Risk Management function, targeting the then imminent establishment of the Iccrea Cooperative Banking Group. In 2019, the organizational model was refined with a view – among other things – to optimizing the dissemination of risk management directives to the affiliated banks and overseeing the performance of the Risk Management function's activities at those banks. With specific regard to the management of operational and IT risk, responsibilities are allocated to two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established and charged with:
  - centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Cooperative Banking Group as a whole. This unit operates as a specialist hub for operational and IT risks;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the Risk Management functions of the affiliated banks;
- at the affiliated banks and other companies directly controlled by the Parent Company, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

With regard current overall Group governance arrangements for the internal control system, the Risk Committee of the Board of Directors of the Parent Company provides support to that Board with regard to risks and the internal control system, including aspects concerning the frameworks for the management of operational risk and IT risk.

In particular, the Board Risk Committee:

- supports activities to verify the correct implementation of Group strategies, compliance with policies for the governance and management of operational risk and IT risk, requesting any appropriate technical analyses and acquiring the necessary documentation for the evaluation of management and mitigation actions for the risks involved;

- conducts a preliminary review of the activity programs and periodic reports of the Operational & IT Risk Management unit submitted to the Board of Directors;
- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the risk management process, the Operational & IT Risk Management framework is structured into the following phases:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss and incident data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational and IT risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (IT Risk Management Framework), in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Risk Management function prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Cooperative Banking Group mainly uses the Basic Indicator Approach (BIA),[27] which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

Following the creation of the Iccrea Cooperative Banking Group, and the consequent affiliation of the mutual banks, the components of the operational and IT risk management framework already adopted by the companies of the former Iccrea Banking Group were revised and gradual adoption by the affiliated banks has begun.

The methodological aspects underlying the management framework and the related procedures for application to the Group companies were formalized and approved at the end of 2019 as part of specific Group Policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment and IT Risk Self-Assessment), which are currently being adopted by all Group companies.

In 2019, activities leading up to the go-live of the application system to support operational and IT risk management activities were begun.

The loss data collection process has currently been adopted by all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope and are continuing in 2020 with regard to application of the process to the affiliated banks. IT risk management activities included the completion, in March 2020, of the annual information risk profile assessment, which involved Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

[27] One affiliated bank adopts the Traditional Standardised Approach (TSA).

In the first half of 2020, the development of the related application system continued. With specific reference to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile of Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In addition, the first half of 2020 also saw the continuation of the informational and training effort for the Operational & IT Risk Management framework, in step with the evolution of the management framework and the release of applications, with specific attention being paid to operating approaches and support applications. The Risk Management function also supported the collection of operational loss events at the Group level for QIS and COREP regulatory reporting purposes.

RISK PREVENTION AND ATTENUATION

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address operational and IT risk within the Group's internal control systems. These include the Operational and IT Risks, Compliance and Anti-Money-Laundering units of the Parent Company, the individual subsidiaries and the affiliated banks. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational and IT risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level and for the affiliated banks);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF);

Monitoring and reporting

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

In this area, the Risk Management function prepares the necessary periodic reporting, bringing it to the attention of the various internal structures involved (Board of Directors, senior management, operating units).

Risk management and mitigation

Operational and IT risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

QUANTITATIVE DISCLOSURES

As provided for in Circular 285/2013 of the Bank of Italy as updated, for reporting purposes the Group calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is the relevant indicator.

In particular, the Group capital requirement, equal to 15% of the average of the last three observations of the relevant indicator at the end of the previous year, amounted to €600 million.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2019	T	4,027,636
- at December 31, 2018	T-1	4,118,360
- at December 31, 2017	T-2	3,845,438
Relevant indicator average		**3,997,145**
Regulatory coefficient		**15%**
Capital requirement		**599,572**

PART F
Information on consolidated capital

SECTION 1 - CONSOLIDATED CAPITAL

A. QUALITATIVE DISCLOSURES

The Group's strategic priorities include monitoring the amount and dynamics of its capital. Capital constitutes the first bulwark against the risks associated with operations and the main reference parameter for assessments of the Group's solvency by supervisory authorities and investors. It contributes positively to the formation of operating income, funds the Group's technical and financial fixed assets and supports dimensional growth, representing a decisive element in the development phases.

Managing capital adequacy at the consolidated and individual levels involves defining the scale and optimal combination of different capital instruments, in compliance with regulatory constraints and consistent with the risk profile assumed by the Group.

The notion of capital adopted by the Group in its assessments is the "own funds" aggregate as established with Regulation (EU) No. 575/2013 (CRR), broken down into the three components of Common Equity Tier 1 (CET 1), Tier 1 and Tier 2. The capital thus defined, the main resource for supporting corporate risks according to prudential supervisory regulations, is the best foundation for the effective management of risk, both from a strategic and operational standpoint, as it a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks it has assumed.

Current and forward-looking capital adequacy is therefore monitored in two spheres:

- regulatory capital to cover Pillar I risks;
- total internal capital to cover Pillar II risks, for ICAAP purposes.

In the evolutionary sizing of the Group's own funds, the specific policies for allocating the net profit of the affiliated banks play an important role, seeking to support the constant strengthening of reserves. In compliance with the specific sector regulations, these banks allocate a large majority of their net profits to indivisible reserves. Capital adequacy compliance is pursued not only through careful policies for the distribution of the available component of profits but also through the prudent management of investments, in particular loans, in line with risk represented by counterparties and the related capital requirements, and with plans for strengthening capitalization based on the expansion of the shareholder base and the issue by the Parent Company of subordinated liabilities or additional equity instruments eligible for inclusion in the relevant own funds aggregates.

More specifically, in order to constant maintain its capital adequacy, the Group has deployed processes and tools to determine the level of internal capital adequate to face any type of risk assumed, as part of an assessment of the current, prospective and "stressed" exposure that takes account of corporate strategies, growth objectives and developments in the reference context.

A careful assessment of the compatibility of projections is carried out annually as part of the process of setting budget targets. Depending on the expected developments in balance sheet and income statement aggregates, any necessary initiatives are taken at this stage to ensure financial balance and the availability of financial resources consistent with the strategic and development objectives of the individual entity and the Group as a whole.

Compliance with supervisory requirements and the consequent adequacy of capital is verified on a quarterly basis. The aspects subject to verification are mainly the ratios connected with the Group's financial structure (loans, impaired exposures, non-current assets, total assets) and the degree of risk coverage.

Additional specific analyzes for the purpose of the preventive assessment of capital adequacy are carried out when necessary prior to extraordinary operations such as mergers and acquisitions, or the sale of assets.

The minimum capital requirements are those established by applicable supervisory regulations (Article 92 of the CRR), according to which the Common Equity Tier 1 ratio must be at least 4.5% of total risk weighted assets ("CET1 capital ratio"), Tier 1 capital must represent at least 6% of total risk weighted assets ("Tier 1 capital ratio") and total own funds must be at least 8% of total weighted assets ("Total capital ratio").

In addition, the competent supervisory authorities periodically issue a specific decision regarding the capital requirements that the Group must comply with following the prudential review and evaluation process ("SREP") conducted pursuant to Article 97 et seq. of Directive 2013/36/EU (CRD IV).

In particular, Article 97 of the CRD IV establishes that the competent authorities shall periodically review the arrangements, strategies, processes and mechanisms that groups and supervised banks implement to face the risks to which they are exposed. With the SREP, the competent authorities therefore review and evaluate the process of determining capital adequacy conducted internally by the Group, analyze its risk profile individually and from an aggregate perspective, including under stress conditions, and assess its contribution to systemic risk; assess the corporate governance system, the operation of corporate bodies, the organizational structure and the internal control system; and verifies compliance with all prudential rules.

On December 4, 2019 the supervisory authorities notified Iccrea Banca the results of the SREP decision establishing the prudential requirements in force at the consolidated level with effect from January 1, 2020. For further information on this decision, which represents the first assigned at the consolidated level for the Iccrea Cooperative Banking Group since its establishment, please refer to the section

"Capital and liquidity adequacy self-assessment process" in the consolidated report on operations.

On April 8, the ECB notified Iccrea Banca of the decision to change the composition of the additional Pillar 2 own funds requirement notified on December 4, 2019. With this decision, the supervisory authority amended the initial SREP decision, keeping the previous quantitative requirements unchanged but allowing the additional Pillar 2 own funds requirement (P2R) to also be met with Additional Tier 1 and Tier 2 instruments, within the limits of certain percentages. More specifically, at least 56.25% of the P2R shall be held in the form of Common Equity Tier 1 (CET1), with Tier 1 capital accounting for at least 75%.

B. QUANTITATIVE DISCLOSURES

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

The table reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Prudential consolidation" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the "Banking Group", are measured using the equity method here;
- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.

	Prudential consolidation	Insurance undertakings	Other entities	Consolidation eliminations and adjustments	Total
1. Share capital	2,381,260	-	-	-	2,381,260
2. Share premium reserve	152,377	-	-	-	152,377
3. Reserves	8,588,012	-	-	-	8,588,012
4. Equity instruments	30,139	-	-	-	30,139
5. (Treasury shares)	(1,212,252)	-	-	-	(1,212,252)
6. Valuation reserves:	223,809	-	-	-	223,809
- Equity securities designated as at fair value through other comprehensive income	(9)	-	-	-	(9)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-	-	-	-
- Financial assets measured at fair value through other comprehensive income	15,515	-	-	-	15,515
- Property, plant and equipment	138	-	-	-	138
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	1,482	-	-	-	1,482
- Hedging instruments [undesignated elements]	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Non-current assets held for sale	-	-	-	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(52,047)	-	-	-	(52,047)
- Share of valuation reserves of equity investments accounted for using equity method	2,573	-	-	-	2,573
- Special revaluation laws	256,158	-	-	-	256,158
7. Net profit (loss) for the period	126,625	-	-	-	126,625
Shareholders' equity	**10,289,969**	**-**	**-**	**-**	**10,289,969**

B.3 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: CHANGE FOR THE PERIOD

	Debt securities	Equity securities	Loans
1. Opening balance	**40,895**	**(565)**	**(3)**
2. Increases	**23,404**	**9,131**	**-**
2.1 Fair value gains	11,469	786	-
2.2 Writedowns for credit risk	6,754	X	-
2.3 Reversal to profit or loss of negative reserves: from realization	5,137	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	3	5,561	-
2.5 Other changes	41	2,784	3
3. Decreases	**48,783**	**8,575**	**-**
3.1 Fair value losses	32,759	7,050	-
3.2 Writebacks for credit risk	371	-	-
3.3 Reversal to profit or loss of positive reserves: from realization	14,465	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	735	-
3.5 Other changes	1,188	790	-
4. Closing balance	**15,515**	**(9)**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €51.6 million, essentially unchanged on the end of 2019.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G
Business combinations

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE PERIOD

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.
For corporate reorganization purposes, in February and March 2020 four mergers of mutual banks were carried out that had no impact on the consolidated financial statements. In compliance with the accounting practices for such transactions, these operations were accounted for on an unchanged values basis and regarded:

- the merger of BCC di Formello into BCC di Riano, leading to the creation of Banca di Credito Cooperativo della Provincia Romana S.C.;
- the merger of Banca CRAS into BCC Umbria, leading to the creation of Banca Centro Credito Cooperativo Toscana Umbria S.C.;
- the merger of Banca di Credito Cooperativo di Valledolmo into Banca di Credito Cooperativo San Giuseppe di Petralia Sottana, leading to the creation of Banca di Credito Cooperativo San Giuseppe delle Madonie S.C.;
- the merger of BCC di Monastier into BCC Pordenonese, leading to the creation of BCC Pordenonese e Monsile S.C.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

No business combinations were carried out by the Group following the close of the period.

In June 2020, the ECB authorized the merger of BCC Credito Trevigiano S.C. into C.R.A. Brendola, creating Banca delle Terre Venete with effect from October 1, 2020.

In addition, at the end of July 2020 the ECB authorized the merger of Banca di Credito Cooperativo San Giuseppe di Mussomeli, Banca di Credito Cooperativo Don Stella Di Resuttano and Banca di Credito Cooperativo di San Biagio Platani, currently under special administration, into Banca di Credito Cooperativo “G. Toniolo” di San Cataldo with effect from October 1, 2020.

These transactions will have no impact on the consolidated financial statements.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

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

PART H
Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the period to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Group's activities, including the directors and members of the supervisory bodies.

	Total 30/6/2020				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	5,203	172	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the entity preparing the financial statements.

In application of that standard, the related parties of the Group include:

- unconsolidated subsidiaries;
- associated companies and their subsidiaries;
- key management personnel of the Group;
- members of the immediate family of key management personnel and companies controlled, alone or jointly, by key management personnel or members of their immediate family;
- post-employment benefit plans for Group employees.

The Iccrea Cooperative Banking Group has adopted a document governing the principles and rules applicable to related party transactions in compliance with supervisory regulations contained in Circular no. 263/2006 of the Bank of Italy.

Transactions between the Iccrea Cooperative Banking Group and corporate officers regard normal Group operations and were carried out, where applicable, applying the terms reserved for all employees. Transactions with subsidiaries not consolidated on a line-by-line basis and transactions with associated companies regarded ordinary operations within a multi-functional banking organization.

In compliance with supervisory regulations, all transactions carried out by Group companies with their related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent non-Group counterparties. No unusual or atypical transactions were carried out by Group companies with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes transactions and their financial effects carried out in the period with the related parties of the Group other than fully consolidated transactions.

	Total 30/6/2020			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	29,112	127,150	2,895	7,811
Total other assets	378	454	47	2,666
Financial liabilities	15,354	19,310	5,169	11,439
Total other liabilities	118	890	599	25,513
Commitments and financial guarantees issued	4,345	5,939	88	468
Commitments and financial guarantees received	5,940	-	3,387	75,880
Provisions for doubtful accounts	-	1,707	-	-

	Total 30/6/2020			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	102	97	141	459
Interest expense	(5)	(3)	(13)	(15)
Dividends	19	528	-	-
Fee and commission income	412	5,656	1	222
Fee and commission expense	(315)	-	(15)	(9)
Net gain (loss) on trading activities	-	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(222)	(325)	(58)	2,432
Writedowns/writebacks of impaired financial assets	-	129	-	(2)

PART I
Share-based payments

The Iccrea Cooperative Banking Group has no payment agreements based on its own equity instruments in place.

PART L
Operating segments

A. PRIMARY REPORTING BASIS

The companies within the Group mainly operate exclusively in the following segments:

- Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for affiliated banks. The segment includes the operations of the Parent Company Iccrea Banca, BCC Sistemi Informatici, BCC Gestione Crediti, BCC Solutions, BCC Beni Immobili, Sinergia, Sigest and Coopersystem;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks. The segment includes the operations of Iccrea BancaImpresa, BCC Lease, BCC Factoring and Banca Mediocredito del F.V.G.;
- Retail: mainly asset management activities on an individual and collective basis for retail customers (BCC Risparmio&Previdenza), consumer credit (BCC CreditoConsumo) and the traditional banking activities of Banca Sviluppo;
- Mutual banks: includes all of the mutual banks that have joined the Group and the associated Guarantee Scheme.

The following reports a summary income statement and key financial aggregates by business segment. The column reporting inter-segment transactions includes intercompany eliminations between the companies included in different segments.

The primary reporting basis shows no changes compared with the financial statements at December 31, 2029.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	89,221	22,699	30,213	1,048,806	20,027	1,210,966
Net fee and commission income	9,665	73,825	22,987	512,911	(15,207)	604,182
Other financial expense and income	385	95,088	(179)	167,997	(44,905)	218,386
Gross income	99,271	191,613	53,021	1,729,714	(40,085)	2,033,535
Net value adjustments	(80,713)	(11,880)	(14,330)	(282,802)	220	(389,505)
Net gains (losses) on financial operations	18,559	179,732	38,692	1,446,912	(39,864)	1,644,030
Operating expenses	(48,112)	(151,771)	(27,406)	(1,241,636)	11,125	(1,457,800)
Other costs and revenues	(2,202)	(31,209)	(18)	(1,094)	23,372	(11,151)
Profit/(loss) from continuing operations before tax	(31,755)	(3,248)	11,268	204,182	(5,368)	175,079
Income tax for the period on continuing operations	204	(2,087)	(5,060)	(41,468)	(43)	(48,455)
Profit/(loss) for the period	**(31,551)**	**(5,335)**	**6,209**	**162,714**	**(5,411)**	**126,625**
Profit/(loss) for the period pertaining to non-controlling interests	**(1,554)**	**4,790**	**1,266**	**-**	**-**	**4,502**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**(29,997)**	**(10,125)**	**4,943**	**162,714**	**(5,411)**	**122,123**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	508,834	14,793,971	81,185	57,236,445	(6,285,560)	66,334,875
Due from banks	209,058	30,557,825	633,645	12,748,687	(36,055,994)	8,093,221
Loans to customers	8,211,706	6,111,827	1,152,371	72,151,955	(1,861,248)	85,766,612
Funding from banks	4,360,510	29,070,676	1,453,984	32,297,485	(37,350,035)	29,832,621
Funding from customers	917,916	17,317,972	318,573	90,233,169	(325,644)	108,461,986
Securities and other financial liabilities	3,129,825	5,324,142	35,803	11,880,467	(5,015,711)	15,354,525

B. SECONDARY REPORTING BASIS

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

PART M
Lease disclosures

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

At the reporting date, the Group held 2,968 lease/rental contracts falling within the scope of IFRS 16 as they refer to operating leases involving property, plant and equipment in the following classes of assets:

- capital equipment (printers and other office equipment, personal computers, servers, smartphones/tablets, cars and company vehicles, advanced ATMs, etc.);
- real estate, in particular the premises in which the branches operate and spaces for ATMs.

These assets are mainly intended for use in the normal operations of the company and for this reason they are mainly classified under assets held for use in operations. For more details on the recognition and measurement criteria involved, please see Part A “Accounting Policies” of these notes to the financial statements.

The rental contracts entered into by the Group normally provide for fixed payments for a specified period of time and, with the exception of property leases, do not envisage an extension option. Based on the foregoing, the effective term of the individual leases is taken into account for the purpose of accounting for the rights of use, while in cases in which an extension option is envisaged and its exercise is considered highly probable, the Group considers the contractual term inclusive of the extension period, unless factors or specific situations envisaged within the contract suggest a different assessment. This is because the properties in question are functional to the performance of the activities of the Group companies and non-exercise of the extension option is only considered in cases where impediments have arisen independently on the intentions of the companies themselves, i.e. the decision not to extend the lease was prompted by initially unforeseeable circumstances (e.g. changes of location, increase in lease payments, etc.).

If provided for by the lease agreement, the Group also does not consider early termination options unless factors or specific circumstances make it highly probable that the option will be exercised before the expiry of the lease (such as, for example, the impediments or the specific needs mentioned above).

QUANTITATIVE DISCLOSURES

For further quantitative information concerning the assets acquired by the Group through leases, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, assets, section 9, as regards rights of use in respect of leased assets held at the reporting date;
- part B, liabilities, section 1, as regards lease liabilities outstanding at the reporting date;
- part C, section 1, as regards interest expense on leasing liabilities accrued during the year;
- part C, section 14, as regards depreciation of rights of use recognized during the year.

Note that in determining the depreciation rates to be applied to the rights of use in respect of assets acquired under leases, reference has been made to the contractual term of the underlying leases, also taking account any extension/termination options where the probability that they will be exercised is considered high, depending on the nature of the transaction (finance/operating lease) and the type of asset.

SECTION 2 – LESSOR

QUALITATIVE DISCLOSURES

Lease transactions undertaken by Group mutual banks as a lessor are negligible.

The Group had around 90 leases in which the Group is the lessor, mainly involving commercial and residential properties.

The Group mainly enters into finance leases with customers and is active in the real estate, residential, equipment, vehicle and marine lease sectors.

Lease payments for the year are recognized in profit or loss under operating income.

For more details on the recognition and measurement criteria involved, please see Part A "Accounting Policies" of these notes to the financial statements.

QUANTITATIVE DISCLOSURES

1. INFORMATION IN THE BALANCE SHEET AND INCOME STATEMENT

For additional quantitative information on the lease operations of the Group, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, Assets, section 4, as regards lease financing granted by the Group in relation to finance leases;
- part C, section 1, as regards interest income on the above lease financing accrued during the period;
- part C, section 16, as regards other income connected with the lease operations undertaken the Group as a lessor.

2. FINANCE LEASES

2.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED AND RECONCILIATION WITH LEASE FINANCING RECOGNIZED UNDER ASSETS

	Total 30/6/2020	Total 31/12/2019
	Payments to be received for leases	Payments to be received for leases
Up to 1 year	762,600	839,708
From more than 1 year up to 2 years	732,947	737,307
From more than 2 years up to 3 years	597,810	615,141
From more than 3 years up to 4 years	448,219	453,456
From more than 4 years up to 5 years	326,052	324,653
From more than 5 years	1,513,841	1,929,572
Total payments to be received for leases	**4,381,469**	**4,899,836**
Reconciliation with financing	**1,401,788**	**1,535,000**
Financial income not accrued (-)	698,683	812,465
Unguaranteed residual value (-)	703,105	722,534
Lease financing	**2,979,681**	**3,364,836**

The balance of lease financing does not include past due principal and interest, exposures to terminated leases or writedowns on outstanding financing at the reporting date.

2.2 OTHER INFORMATION

No other information to report.

3. OPERATING LEASES

3.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED

	Total 30/6/2020	Total 31/12/2019
	Payments to be received for leases	Payments to be received for leases
Up to 1 year	3,094	3,531
From more than 1 year up to 2 years	2,817	3,538
From more than 2 years up to 3 years	2,475	3,325
From more than 3 years up to 4 years	1,978	3,176
From more than 4 years up to 5 years	1,813	2,781
From more than 5 years	1,548	5,158
Total	**13,725**	**21,509**

3.2 OTHER INFORMATION

No other information to report.

REPORT OF THE AUDIT FIRM

Building a better
working world

Iccrea Banca S.p.A.

Review report on the interim consolidated financial statements

(Translation from the original Italian text)

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Review report on the interim consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows for the six-month period ending June 30, 2020 and the related explanatory notes to the consolidated financial statements of Gruppo Bancario Cooperativo Iccrea. The directors are responsible for the preparation of the interim consolidated 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 consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim consolidated 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 consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of Gruppo Bancario Cooperativo Iccrea, for the six-month period ending June 30, 2020, 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.

Rome, October 13, 2020

EY S.p.A.
Signed by: Wassim Abou Said, Auditor

This report has been translated into the English language solely for the convenience of international readers.

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Capitale Sociale Euro 2.525.000,00 i.v.
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REPORT AND SEPARATE INTERIM FINANCIAL STATEMENTS OF THE PARENT COMPANY ICCREA BANCA S.P.A.

REPORT ON OPERATIONS OF THE PARENT COMPANY

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

The income statement and balance sheet presented below have been reclassified based on management criteria for the purpose of facilitating comparability of information.

Following the Board of Directors' resolution of November 29, 2018, regarding a project to rationalize the electronic money business — which calls for the spin-off of the activities relating to this sector into a new company (Ventis S.p.A.), which was established on December 20, 2018 — and in application of IFRS 5, in the interim financial statements of Iccrea Banca the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items related to assets held for sale.

In addition, following the resolution of the Board of Directors of December 13, 2018, work continued on developing the Group's ICT project and, within the scope of the overall reorganization following the creation of the Iccrea Cooperative Banking Group, the sale of the IT business units of Iccrea Banca and Iccrea BancaImpresa to BCC Sistemi Informatici was completed as of July 1, 2020, with the latter company officially becoming the new hub of information systems and technology for the Group. In the interim financial statements for Iccrea Banca, the items related to the IT business unit have been reclassified under the balance sheet and income statement items related to assets held for sale in accordance with IFRS 5.

Given the above, for the purposes of comparability of the results of the Parent Company with the previous period, the figures related to the two business units being sold have been reallocated to the related items in the schedules provided below.

BALANCE SHEET

Assets

€/thousands	30/06/2020	31/12/2019
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	34,140,127	29,273,773
Financial assets measured at amortized cost – *Due from customers – Loans*	6,113,121	5,843,040
Financial assets measured at amortized cost – *Due from customers – Securities*	9,135,863	7,434,784
Financial assets measured at fair value through profit or loss	1,503,723	1,279,864
Financial assets measured at fair value through other comprehensive income	925,232	367,133
Equity investments	1,144,901	1,155,401
Other assets	599,803	315,037
Total interest-bearing assets	**53,562,769**	**45,669,032**
Other non-interest-bearing assets	262,154	407,527
Total assets	**53,824,923**	**46,076,559**

Total assets at June 30, 2020, amounted to €53.8 billion, an increase on the €46.1 billion posted at the end of December 2019, due mainly to the following factors:

- an increase in financial assets measured at fair value through profit or loss (FVTPL) as a result of investments by the Parent Company (exclusively in debt securities) as manager of the Guarantee Scheme (up €19 million) and an increase in derivatives trading (up €209 million, a change that is also seen in the analogous item on the liability side);
- a decrease in assets mandatorily measured at fair value due mainly to a reduction in the value of units in collective investment undertakings (down €14 million, €6 million of which due to redemptions of Securis real estate funds and capital losses in the amount of €8 million), which was only partially offset by an increase in the value of equity securities (up €2 million) and debt securities, mainly issued by banks (up €6 million);
- an increase in financial assets measured at fair value through other comprehensive income (FVOCI) attributable to the purchase of debt securities (up €566 million, mainly euro-area government securities) in reflection of the strategy of repositioning towards HTCS business model in the first half of 2020, and the decrease in the value of equity securities (down €5 million on AT1s issued by the mutual banks) and in the equity instruments of insurance companies (down €4 million, of which €2 million attributable to the sale of Assimoco shares and €2 million to capital losses on Cattolica shares);
- an increase in amounts due from banks as a result of an increase in collateralized loans within the Group (up €4 million) and of the liability for reserve requirement funds of the mutual banks (up €805 million), which was partially offset by a decrease in purchases of debt securities (down €121 million);
- an increase in loans to customers measured at amortized cost attributable to repo transactions with Cassa Compensazione & Garanzia (up €351 million) and to the purchase of government securities (up €1.7 billion) related to the Group's new financial strategy.

€/thousands	30/06/2020	31/12/2019
Mutual banks	21,425,737	17,955,094
Other credit institutions	12,714,390	11,318,679
Due from banks	**34,140,127**	**29,273,773**

Lending to the mutual banks posted a substantial increase (up €3.5 billion) to reach about €21 billion. These loans, disbursed with pool collateral, include approximately €16.5 billion in operations with the ECB (T-LTRO II in the amount of €78 million and T-LTRO III in the amount of €16.4 billion), with the residual component being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) include €6.9 billion in intercompany receivables. Of this financing, €6.4 billion was granted to Iccrea BancaImpresa and €1.6 million was refinanced by the Parent Company with the central bank by way of the "ABACO" procedure and using €2.4 billion in collateral.

€/thousands	30/06/2020	31/12/2019
Current accounts	70,227	309,093
Medium/long-term loans	64,715	69,886
Repurchase agreements	3,236,369	2,885,420
Other transactions	2,734,520	2,571,123
Impaired assets	7,290	7,519
Due from customers	**6,113,121**	**5,843,040**

Loans to ordinary customers remained essentially stable at around €6.1 billion and include €1.9 billion related to intercompany loans and €3.2 billion to repurchase agreements with the clearing and guarantee fund, Cassa Compensazione & Garanzia.

The investment portfolio referring to HTC securities, which is made up of government securities, shows a balance at June 2020 of €9.1 billion.

The portfolio of financial assets measured at fair value through profit or loss (€1.5 billion) increased by €224 million from December 31, 2019, due mainly to the increase in derivatives trading (up €209 million) and to management of the guarantee scheme (€19 million).

Financial assets measured at fair value through other comprehensive income, referring to the HCTS business model, are mainly made up of government securities and show a balance of €925 million at June 30, 2020.

Equity investments amounted to €1.2 billion, increasing (by €15 million) from December 31, 2019, due to the subscription of the increase towards the future capital increase of BCC Vita.

Liabilities and equity

€/thousands	30/06/2020	31/12/2019
Financial liabilities measured at amortized cost – *Due to banks*	28,955,540	20,782,376
Financial liabilities measured at amortized cost – *Due to customers*	17,417,775	17,228,036
Financial liabilities measured at amortized cost – *Securities issued*	4,253,167	5,021,316
Financial liabilities held for trading	594,706	381,867
Financial liabilities designated as at fair value	337,104	424,058
Other liabilities	404,017	384,215
Total interest-bearing liabilities	**51,962,310**	**44,221,870**
Other non-interest-bearing liabilities	168,450	150,200
Shareholders' equity	1,700,371	1,831,906
Profit/(loss) for the period (+/-)	(6,207)	(127,417)
Total liabilities and equity	**53,824,923**	**46,076,559**

Interest-bearing funding totaled €52 billion, an increase (of €7.7 billion) compared with December 31, 2019, due to the following factors:

- an increase in amounts due to banks as a result of the increase in time deposits (up €2.3 billion) – almost entirely with the affiliated banks – and in funding from the ECB (up €4.6 billion). A similar trend can be seen in current accounts and demand deposits (up €884 million);
- an increase in amounts due to customers due to an increase in repo transactions with Cassa Compensazione & Garanzia (€638 million), which was offset by a decrease in operations on behalf of the Italian Treasury (OPTES) with the Ministry of the Economy and Finance (down €500 million);
- a decrease in securities issued, which can be attributed almost entirely to securities reaching maturity (down €614 million) and to the early redemption of subordinated bonds placed with the mutual banks (down €118 million) as authorized by the ECB. The remainder of the change is attributable to market-making activities involving our own bonds;

- an increase in liabilities held for trading, attributable mainly to trading derivatives (up €212 million, a change that can also be seen the analogous item on the asset side);
- a decrease in financial liabilities designated as at fair value related to financing received from the affiliated banks (the Ex Ante Quota) in relation to the Guarantee Scheme (down €87million) due to repayments made in January 2020.

€/thousands	30/06/2020	31/12/2019
Mutual banks	11,254,979	8,177,376
Other credit institutions	17,700,561	12,605,000
Due to banks	**28,955,540**	**20,782,376**

Interbank deposits, which include €4.7 billion in deposits for reserve obligations for the mutual banks, amounted to €29 billion. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €2.4 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the T-LTRO II in the amount of €78 million and the T-LTRO III in the amount of €16.4 billion, while the remainder refers to intercompany transactions.

€/thousands	30/06/2020	31/12/2019
Current accounts and deposits	885,541	1,009,117
Financing	15,927,492	15,789,731
Other payables	604,742	429,188
Due to customers	**17,417,775**	**17,228,036**

Funding from customers came to €17.4 billion, a slight increase (of €190 million) compared with December 31, 2019. This increase is due to an increase in repurchase agreements (up €638 million) offset by a decrease in OPTES operations (down €500 million).

Securities issued as at June 30, 2020, amounted to €4.3 billion, a decrease (of €768 million) from December 2019 due to their natural maturity or early redemption.

Equity

At June 30, 2020, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion and remains unchanged from 2019. Shareholders' equity, excluding earnings for the period, amounted to €1.7 billion, a decrease (of €135 million) compared with December 31, 2019. Changes are mainly due to a decrease in valuation reserves (down €4 million) as a result of the decreasing value of the FVOCI portfolio and to the net loss for 2019 that has been carried forward (down €127.4 million).

Income statement

€/thousands	30/06/2020	30/06/2019
Net interest income	**35,006**	**29,410**
Gains/losses on financial transactions	43,086	32,792
Dividends	37,041	51,226
Net fee and commission income	**68,749**	**75,320**
Other operating expenses/income	78,845	33,349
Gross income	**262,727**	**222,098**
Personnel expenses	(91,961)	(65,081)
Other administrative expenses	(130,687)	(135,396)
Net adjustments of property, plant and equipment and intangible assets	(10,077)	(5,251)
Total operating expenses	**(232,724)**	**(205,728)**
Gross operating profit	**30,003**	**16,370**
Net provisions for risks and charges	(787)	(427)
Net losses/recoveries on impairment of loans and other financial transactions	(11,218)	(631)
Total provisions and adjustments	**(12,005)**	**(1,058)**
Profit/(loss) from equity investments	(25,540)	(2,322)
Profit/(loss) before tax	**(7,542)**	**12,989**
Income tax expense	1,335	3,141
Profit/(Loss) for the period	**(6,207)**	**16,130**

The net loss for the period is €6.2 million, a decrease in performance (down €22.3 million) compared with June 2019.

The main factors that had an impact on financial performance for the period include:

- an increase in net interest income due to: (*i*) the revaluation of BTPi securities linked to European and Italian inflation (up €1.2 million), which account for 30% of the total HTC portfolio; (*ii*) the contribution of negative-interest funding from the ECB (up €5.6 million) and from the MEF for the OPTES operations (up €2.6 million); (*iii*) a decrease in interest expense paid on bonds issued (€2.8 million) in relation to the aforementioned reduction in such bonds; (*iv*) interest income on subordinated bonds issued by the mutual banks in relation to the strengthening of the Group's capital in November 2019 (up €2.5 million). These increases were partially offset by a decrease in interest on the financing of the companies within the direct scope (down €7 million) in relation to the replacement of bonds with other short-term forms of financing, in addition to the tiering investment accounts, which had a further negative impact of €1.5 million;
- an total increase of €43 million in profits and losses on other financial transactions due mainly to profits recognized in January 2020 with the sale of about €0.8 billion in government securities held in the HTC portfolio. Conversely, while the first half of 2019 had benefited from capital gains on the NEXI (€7.4 million) and Visa (€3.6 million) securities, losses have been recognized on equity securities (€3.3 million, of which €3.1 million on Visa) and on units in collective investment undertakings (€3.8 million) in the portfolio mandatorily measured at fair value, as well as on debt securities (€3.8 million). Gains on trading in the securities and derivatives segment (€2.5 million) helped to offset these losses;
- a decrease in dividends received (down €14.2 million). The decrease in dividends on equity investments in Iccrea BancaImpresa (down €23.8 million) and BCC Gestione Crediti (down €2.1 million) was only partially offset by an increase in dividends paid by the shareholdings BCC Risparmio & Previdenza (up €2.8 million), BCC CreditoConsumo (up €5.8 million) and BCC Solutions (up €3.7 million). In addition, as at June 2020, dividends were not received from SIA or Cattolica, which had both paid dividends in the first half of 2019 totaling €0.3 million;
- a decrease in net fee and commission income (down €6.6 million) due mainly to a reduction in spending with payment cards and in intermediation more generally as a result of the lockdown in response to the health emergency. In the first half of 2019, net fee and commission income also benefited from fees and commissions on the extraordinary (GACS) securitization operations conducted under the coordination of the Parent Company;
- an increase in other operating expenses/income due mainly to the increased billing of services related to the new ICBG. Class-1 and Class-2 services increased by €17.3 million and €16 million, respectively, in relation to the fact that the mutual banks were billed for a full six-month period (vs. just three months in the first half of 2019, given that the Group was established in March), while recoveries for project services came to €12.5 million (an item that was not applicable in 2019);
- an increase in losses on controlling equity interests recognized in relation to Iccrea BancaImpresa and Banca Sviluppo for a total of €25.5 million (up €23.2 million compared with the first half of 2019).

In relation to these factors, gross income at June 30, 2020, including other operating income (€78.8 million) related to the reclassification of fees received from the mutual banks for direction, coordination and other intercompany services within core operating revenues, came to €262.7 million, an increase of €40.6 million compared with the first half of the previous year.

Operating expenses (€232.7 million) increased (by €27 million) compared with the first half of 2019 due mainly to the following: (i) an increase in personnel expenses (from €65.1 to €92.0 million) as a result in the new size of the workforce following creation of the ICBG; (ii) a slight increase in other administrative expenses, given that the increase in contributions to the Resolution Fund (up €8.1 million) compared with the previous period was followed by the recognition of past-period adjustments (down €7.5 million) due to the revision of errors in costs recognized in 2019; (iii) an increase in depreciation and amortization (up €4.8 million) as a result of capital expenditure made during the year in order to establish the ICBG.

In addition to the aforementioned adjustments to equity investments, adjustments for credit risk had a significant impact on performance for the period, having increased significantly from the €0.6 million of the first half of 2019 to €11.2 million for the period under review. These adjustments can be attributed to loans in the amount of €4 million and securities in the amount of €7.2 million and regard the increase in provisions made necessary by the changes in the macroeconomic environment in the wake of the spread of the COVID-19 pandemic.

ASSETS HELD FOR SALE

Electronic money business

Iccrea Banca has evaluated the opportunity to set up a new company within the Iccrea Banking Group, in the form of an electronic money institution to which we can transfer and focus the activities related to the electronic money business.

Creation of a company for the electronic money business – as authorized by the Bank of Italy – meets the need of segregating this specific business in order to promote greater focus on the segment and facilitate potential partnerships in the future.

The decision to establish a dedicated legal entity to manage the e-money business is, in fact, oriented towards the achievement of: a) a possible expansion of the reference market; b) greater organizational and operational flexibility functional to the characteristics of the market; c) an improvement in time-to-market due to the convergence and centralization of all functional and technological components; and d) greater consistency in the management of capital absorption with respect to the specific business. The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current electronic money business, including the employees, assets, and other legal relationships pertaining to it.

The financial performance and standing of the e-money division is shown below.

Balance sheet

€/thousands	30/06/2020
Financial assets measured at amortized cost	555
Property, plant and equipment	2
Intangible assets	3,012
Other assets	149,608
Total assets	**153,177**

€/thousands	30/06/2020
Financial liabilities measured at amortized cost	102,598
Other liabilities	38,072
Post-employment benefits	462
Provisions for risks and charges	1,797
Profit/(loss) for the period (+/-)	10,248
Total liabilities and shareholders' equity	**153,177**

Financial liabilities measured at amortized cost include total monies connected with prepaid cards.

Income statement

€/thousands	30/06/2020
Fee and commission income	150,656
Fee and commission expense	(112,838)
Net fee and commission income	**37,818**
Gross income	**37,818**
Net income/(loss) from financial operations	**37,818**
Administrative expenses:	(31,031)
a) personnel expenses	*(2,820)*
b) other administrative expenses	*(28,210)*
Net provisions for risks and charges	(289)
b) other net provisions	*(289)*
Net losses/recoveries on impairment of loans and other transactions	(3)
Net writedowns/writebacks of property, plant and equipment and intangible assets	(342)
Other operating expenses/income	8,146
Operating expenses	**(23,519)**
Profit/(loss) before tax on continuing operations	**14,299**
Income tax expense	**(4,052)**
Net profit/(loss) for the period	**10,248**

ICT business unit

The project to transfer the ICT business unit by Iccrea Banca and Iccrea BancaImpresa with the reorganization and consequent outsourcing of ICT to BCC Sistemi Informatici is part of a broader, more complex ICT strategy initiated by the Parent Company in 2015 and resumed immediately following the establishment of the ICBG.

Given the particular nature of the transformation taking place in the mutual banking segment and within the ICBG specifically, a plan for the development of the ICT segment was defined that encompasses investments in resources, processes and infrastructures in line with the strategies of the Group and calls for:

- in an initial phase, the creation, based on BCC Sistemi Informatici, of a single hub of information systems and technology for the ICBG into which the Group's ICT activities will flow, while safeguarding current operations and processes within a landscape of profound transformation;
- over the medium term, the convergence and full integration of all ICT components of the ICBG into BCC SI by developing the segment to support and facilitate operations and the future processes of the affiliated banks and of the Group.

The expected medium to long-term benefits include a significant increase in service levels and a general improvement in the ICT system, so as to support business growth throughout the Group as a result of the ICT integration, convergence and evolution within the scope of the project. Over the short term, we will see increased levels of ICT integration between the Parent Company and the affiliated banks, particularly within all areas of governance and risk management.

The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current ICT segment, including the employees, assets, and other legal relationships pertaining to it.

The financial performance and standing of the ICT division is shown below.

Balance sheet

€/thousands	30/06/2020
Property, plant and equipment	12,677
Intangible assets	55,233
Other assets	27,826
Total assets	**95,727**

€/thousands	30/06/2020
Financial liabilities measured at amortized cost	35
Other liabilities	133,735
Post-employment benefits	1,860
Provisions for risks and charges	569
Profit/(Loss) for the period	(40,472)
Total liabilities and shareholders' equity	**95,727**

Income Statement

€/thousands	30/06/2020
Fee and commission income	4,056
Fee and commission expense	-
Net fee and commission income	**4,056**
Gross income	**4,056**
Net gains/(losses) from financial operations	**4,056**
Administrative expenses:	(38,435)
a) personnel expenses	*(7,843)*
b) other administrative expenses	*(30,593)*
Net writedowns/writebacks of property, equipment and intangible assets	(8,661)
Other operating expenses/income	2,568
Operating expenses	**(47,095)**
Profit/(loss) before tax on continuing operations	**(40,472)**
Income tax expense	**-**
Profit/(Loss) for the period	**(40,472)**

REFERRALS TO OTHER PARTS OF THE FINANCIAL STATEMENTS

This separate report on operations only includes comments on developments in Parent Company operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to the separate or consolidated interim financial statementsand the related report on operations.

In particular, please see to the notes to these separate interim financial statements with regard to:

- • information on the Group’s transactions with related parties, which are reported in Part H;
- • information on financial and operational risks, which are discussed in Part E;
- • information on capital, which is reported in Part F.

Readers should instead consult the report on operations in the consolidated financial statements with regard to:

- • information on the main risks and uncertainties;
- • events subsequent to the balance sheet date and the outlook for operations.

Finally, please consult the report on operations in the consolidated interi financial statements for more information on the main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets		30/6/2020	31/12/2019
10.	Cash and cash equivalents	90,665,031	246,136,800
20.	Financial assets measured at fair value through profit or loss	1,503,723,385	1,279,863,832
	a) financial assets held for trading	604,530,701	393,324,630
	b) financial assets designated as at fair value	404,306,198	385,110,727
	c) other financial assets mandatorily measured at fair value	494,886,487	501,428,475
30.	Financial assets measured at fair value through other comprehensive income	925,231,702	367,132,806
40.	Financial assets measured at amortized cost	49,388,556,024	42,551,041,509
	a) due from banks	34,140,127,285	29,273,773,496
	b) loans to customers	15,248,428,739	13,277,268,013
50.	Hedging derivatives	11,939,743	4,786,773
60.	Value adjustments of financial assets hedged generically (+/-)	1,288,044	1,178,316
70.	Equity investments	1,144,900,583	1,150,480,717
80.	Property, plant and equipment	3,319,177	17,125,137
90.	Intangible assets	1,856,091	53,946,254
100.	Tax assets	82,171,204	80,177,993
	a) current	46,455,932	46,916,278
	b) deferred	35,715,272	33,261,715
110.	Non-current assets and disposal groups held for sale	248,903,952	171,699,899
120.	Other assets	422,368,069	152,988,494
	Total assets	**53,824,923,006**	**46,076,558,530**

Liabilities and shareholders' equity		30/6/2020	31/12/2019
10.	Financial liabilities measured at amortized cost	50,523,883,387	42,932,558,486
	a) due to banks	28,955,539,708	20,782,376,367
	b) due to customers	17,315,176,761	17,128,865,970
	c) securities issued	4,253,166,917	5,021,316,149
20.	Financial liabilities held for trading	594,705,839	381,867,344
30.	Financial liabilities designated as at fair value	337,104,417	424,058,244
40.	Hedging derivatives	137,866,474	118,343,799
60.	Tax liabilities	1,290,087	1,406,576
	b) deferred	1,290,087	1,406,576
70.	Liabilities associated with assets held for sale	279,128,015	155,930,039
80.	Other liabilities	232,175,384	329,426,436
90.	Employee termination benefits	16,027,470	18,002,834
100.	Provisions for risks and charges:	8,578,287	10,475,985
	a) commitments and guarantees granted	81,895	40,987
	c) other provisions for risks and charges	8,496,392	10,434,998
110.	Valuation reserves	45,329,625	49,447,673
140.	Reserves	252,522,195	379,938,902
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,401,045,452
170.	Treasury shares (-)	(4,607,698)	(4,607,698)
180.	Net profit (loss) for the period	(6,207,336)	(127,416,948)
	Total liabilities and shareholders' equity	**53,824,923,006**	**46,076,558,530**

INCOME STATEMENT

		30/6/2020	30/6/2019
10.	Interest and similar income	147,292,067	142,151,538
	of which: interest income calculated using effective interest rate method	78,874,329	73,694,195
20.	Interest and similar expense	(112,285,880)	(112,741,474)
30.	**Net interest income**	**35,006,188**	**29,410,064**
40.	Fee and commission income	37,778,581	41,058,942
50.	Fee and commission expense	(10,903,731)	(7,228,454)
60.	**Net fee and commission income (expense)**	**26,874,850**	**33,830,487**
70.	Dividends and similar income	37,041,098	51,225,656
80.	Net gain (loss) on trading activities	7,581,139	5,012,525
90.	Net gain (loss) on hedging activities	(2,107,197)	(1,672,515)
100.	Net gain (loss) on the disposal or repurchase of:	48,964,141	20,274,347
	a) financial assets measured at amortized cost	47,942,227	20,781,262
	b) financial assets measured at fair value through other comprehensive income	651,701	(985,876)
	c) financial liabilities	370,213	478,961
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(11,351,912)	9,178,103
	a) financial assets and liabilities designated as at fair value	(1,491,069)	143,856
	b) other financial assets mandatorily measured at fair value	(9,860,844)	9,034,247
120.	**Gross income**	**142,008,307**	**147,258,668**
130.	Net losses/recoveries for credit risk in respect of:	(11,214,548)	(630,720)
	a) financial assets measured at amortized cost	(9,329,610)	(578,442)
	b) financial assets measured at fair value through other comprehensive income	(1,884,939)	(52,278)
150.	**Net income (loss) from financial operations**	**130,793,759**	**146,627,948**
160.	Administrative expenses:	(153,181,724)	(161,800,006)
	a) personnel expenses	(81,297,966)	(61,768,647)
	b) other administrative expenses	(71,883,758)	(100,031,359)
170.	Net provisions for risks and charges	(498,512)	(297,624)
	a) commitments and guarantees granted	(40,908)	86,489
	b) net provisions for other risk and charges	(457,604)	(384,113)
180.	Net adjustments of property plant and equipment	(793,289)	(2,677,521)
190.	Net adjustments of intangible assets	(280,912)	(2,296,727)
200.	Other operating expenses/income	68,130,713	25,446,231
210.	**Operating expenses**	**(86,623,725)**	**(141,625,647)**
220.	Profit (loss) from equity investments	(25,540,084)	(2,322,220)
260.	**Profit (loss) before tax on continuing operations**	**18,629,950**	**2,680,081**
270.	Income tax expense from continuing operations	5,386,777	6,142,246
280.	**Profit (loss) on continuing operations after tax**	**24,016,727**	**8,822,326**
290	Profit (loss) on discontinued operations after tax	(30,224,063)	7,307,579
300.	**Profit (loss) for the period**	**(6,207,336)**	**16,129,905**

STATEMENT OF COMPREHENSIVE INCOME

		30/6/2020	30/6/2019
10.	**Net profit (loss) for the period**	**(6,207,336)**	**16,129,905**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(5,043,718)**	**1,946,334**
20.	Equity securities designated as at fair value through other comprehensive income	(5,038,302)	2,539,374
70.	Defined benefit plans	(5,417)	(593,041)
	Other comprehensive income net of taxes recyclable to profit or loss	**925,671**	**3,617,872**
120.	Cash flow hedges	270,645	395,290
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	655,026	4,861,861
170.	**Total other comprehensive income net of taxes**	**(4,118,048)**	**7,203,485**
180.	**Comprehensive income (Item 10+170)**	**(10,325,384)**	**23,333,390**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2020

	As at 31/12/2019	Change in opening balance	As at 1/1/2020	Allocation of net profit of previous year		Change in the period										
							Equity transactions									
				Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 30/6/2020	Shareholders' equity 30/6/2020
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	379,938,902	-	379,938,902	(127,416,948)	X	241	-	-	X	-	X	X	X	X	252,522,195
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	49,447,673	-	49,447,673	X	X	-	X	X	X	X	X	X	X	(4,118,048)	45,329,625
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	(4,607,698)	X	(4,607,698)	X	X	X	-	-	X	X	X	X	X	X	(4,607,698)
Net profit (loss) for the period	(127,416,948)	-	(127,416,948)	127,416,948	-	X	X	X	X	X	X	X	X	(6,207,336)	(6,207,336)
Total shareholders' equity	**1,704,488,787**	**-**	**1,704,488,787**	**-**	**-**	**241**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10,325,384)**	**1,694,163,644**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2019

				Allocation of net profit of previous year		Change in the period										
							Equity transactions									
	As at 31/12/2018	Change in opening balance	As at 1/1/2019	Reserves	Dividends and other destinations	Change in reserves	Issue of mew shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at June 30, 2019	Shareholders' equity at June 30, 2019
Share capital:															
a) ordinary shares	1,151,045,404	X	1,151,045,404	-	X	X	250,000,048	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	415,508,556	(2,002,364)	413,506,192	(35,632,098)	X	-	-	-	X	-	X	X	X	X	377,874,094
b) other	-	2,002,364	2,002,364	-	X	-	-	X	X	-	X	-	-	X	2,002,364
Valuation reserves	38,356,458	-	38,356,458	X	X	-	X	X	X	X	X	X	X	7,203,485	45,559,943
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	(4,607,698)	X	(4,607,698)	X	X	X	-	-	X	X	X	X	X	X	(4,607,698)
Net profit (loss) for the period	(35,632,098)	-	(35,632,098)	35,632,098	-	X	X	X	X	X	X	X	X	16,129,905	16,129,905
Total shareholders' equity	**1,570,752,027**	**-**	**1,570,752,027**	**-**	**-**	**-**	**250,000,048**	**-**	**-**	**-**	**-**	**-**	**-**	**23,333,390**	**1,844,085,466**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2020	30/06/2019
A. OPERATING ACTIVITIES		
1. Operations	**(14,876,280)**	**(64,082,018)**
- net profit (loss) for the period (+/-)	(6,207,336)	16,129,905
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	12,430,581	14,398,221
- gains (losses) on hedging activities (-/+)	2,107,388	1,672,515
- net losses/recoveries on impairment (+/-)	11,337,865	630,720
- net adjustments of property plant and equipment and intangible assets (+/-)	1,074,201	4,974,248
- net provisions for risks and charges and other costs/revenues (+/-)	23,658,597	2,750,782
- taxes, duties and tax credits to be settled (+/-)	(5,301,949)	(6,144,700)
- net adjustments of disposal groups held for sale net of tax effects (+/-)	-	-
- other adjustments (+/-)	(53,975,628)	(98,493,709)
2. Net cash flows from/used in financial assets	**(7,789,290,374)**	**(2,439,793,555)**
- financial assets held for trading	(82,920,661)	(267,369,392)
- financial assets designated as at fair value	(21,014,643)	(492,215,407)
- financial assets mandatorily measured at fair value	(3,286,124)	7,982,253
- financial assets measured at fair through other comprehensive income	(535,687,686)	20,318,170
- financial assets measured at amortized cost	(6,846,878,529)	(1,626,882,402)
- other assets	(299,502,730)	(81,626,777)
3. Net cash flows from/used in financial liabilities	**7,641,548,961**	**2,268,280,321**
- financial liabilities measured at amortized cost	7,586,527,321	1,334,918,369
- financial liabilities held for trading	83,657,051	306,424,437
- financial liabilities designated as at fair value	(86,626,922)	423,550,272
- other liabilities	57,991,511	203,387,243
Net cash flows from/used in operating activities (A)	**(162,617,693)**	**(235,595,252)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**36,741,468**	**50,222,876**
- sale of equity investments	-	-
- dividends on equity investments	36,741,468	50,222,876
- sale of property plant and equipment	-	-
- sale of intangible assets	-	-
- sale of business units	-	-
2. Cash flows used in	**(29,595,543)**	**(1,702,368)**
- purchases of equity investments	(19,959,951)	223,188
- purchases of property plant and equipment	(735,660)	(437,980)
- purchases of intangible assets	(8,899,932)	(1,487,576)
- purchases of business units	-	-
Net cash flows from/used in investing activities (B)	**7,145,924**	**48,520,508**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	-	-
- issues/purchases of equity instruments	-	250,000,048
- dividend distribution and other	-	-
Net cash flows from/used in financing activities C(+/-)	**-**	**250,000,048**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	(155,471,768)	62,925,303

RECONCILIATION

	30/06/2020	30/06/2019
Cash and cash equivalents at beginning of period (E)	246,136,800	40,806,690
Net increase/decrease in cash and cash equivalents (D)	(155,471,768)	62,925,303
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	90,665,031	103,731,993

Key
(+) generated
(-) used in

NOTES TO THE FINANCIAL STATEMENTS

PART A
Accounting policies

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the separate interim financial statements of Iccrea Banca have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS-IC), endorsed by the European Commission and in force as of the reporting date.

The IASs/IFRSs have also been applied in accordance with the "Conceptual Framework for Financial Reporting" (the Framework), with particular regard to the key principle of the prevalence of substance over form, as well as the concepts of relevance and materiality of information.

These financial statements are in conformity with the provisions of IAS 34 Interim Financial Reporting and have been prepared using the format and main schedules provided for in Circular no. 262 of December 22, 2005 – 6th update of November 30, 2018 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015.

The financial statements were prepared using the IASs/IFRSs endorsed and in effect as at June 30, 2020, including the IFRS-IC interpretations.

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2020:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2075/2019	**Amendments to the Conceptual Framework for Financial Reporting** The main amendments regard a new chapter on measurement, improved definitions and guidance, clarification of concepts such as stewardship, prudence and uncertainty in measurement.	Annual reporting periods beginning on or after January 1, 2020.
551/2020	**Amendments to IFRS 3: Business Combinations** The main changes are intended to resolve the issues that arise when an entity determines whether it has acquired a business or a group of assets. More specifically, the changes: – clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; – remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; – add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; – narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; – add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.	Annual reporting periods beginning on or after January 1, 2020
2104/2020	**Amendments to IAS 1 and IAS 8: Definition of materiality** The amendments are intended to align the definition of "material" with that used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements.	Annual reporting periods beginning on or after January 1, 2020
34/2020	**Amendments to IFRS 9, IAS 39 and IFRS 7** The amendments concern the requirements for hedge accounting and also have an impact for entities that have elected to continue applying the hedge accounting model under IAS 39. The IASB has amended the specific accounting requirements so that entities apply these requirements assuming that the benchmark interest rate on which the hedged cash flows and the cash flows of the hedging instrument are based does not change due to the uncertainties associated with the benchmark interest rate reform. The changes apply to all hedging relationships that are directly affected by the benchmark interest rate reform. The amendments seek to avoid the interruption of existing cash flow and fair value hedging relationships directly impacted by the reform, which in the absence of this relief would give rise to hedge ineffectiveness and potential hedge accounting failures following the replacement of IBOR with alternative benchmarks. These issues could have given rise to large reclassifications to profit or loss of cash flow hedge reserves and to the termination of hedge accounting for fair value hedges of fixed-rate debt.	Annual reporting periods beginning on or after January 1, 2020

The amendments and additions provided for in the endorsement regulations have not had a material impact on the financial position or performance of the Group.

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	**Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions** The amendments seek to provide lessees relief from the application of IFRS 16 guidelines on accounting for lease modifications with regard to rent concessions granted as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a rent concession granted by a lessor in connection with COVID-19 is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession connected with COVID-19 the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: – the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; – any reduction in lease payments affects only payments originally due on or before June 30, 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and – there is no substantive change to other terms and conditions of the lease.	Annual reporting periods beginning on or after June 1, 2020. Early application is permitted.
To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments are intended to clarify one of the criteria of IAS 1 for the classification of liabilities as non-current, namely the requirement that an entity have the right to defer settlement of the liabilities for at least 12 months after the end of the reporting period. The amendments include: – an indication that the right to defer settlement must exist at the end of the reporting period; – a clarification that classification is unaffected by management's expectations about whether the entity will exercise its right to defer settlement; – a clarification of how the terms of a liability may affect classification; and – a clarification of the requirements for classification of liabilities that the entity intends to settle or could settle with the issue of its own equity instruments.	Annual reporting periods beginning on or after January 1, 2022.
To be determined	**Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020** The amendments are narrow-scope changes to three standards and annual improvements to the following standards: – IFRS 1; – IFRS 9; – IFRS 16; – IAS 41.	Annual reporting periods beginning on or after January 1, 2022.
To be determined	**IFRS 17 Insurance Contracts** The standard seeks to improve investor understanding of exposures to the risk, profitability and financial position of insurers. On June 25, 2020, the IASB published the following amendments to IFRS 17: – a reduction in costs with the simplification of certain requirements of the accounting standards; – the simplification of statements of financial performance; – the deferral of the effective date until 2023. The IASB amended the previous standard on insurance contracts, 'IFRS 4, extending the Temporary Exemption from applying IFRS 9 from January 1, 2021 to January 1, 2023.	Annual reporting periods beginning on or after January 1, 2023.

Rules issued by the IASB that have not yet entered force are not expected to have an impact on the financial position and performance of the Group, with the exception of indirect impacts from the application of IFRS 17 to insurance companies accounted for using the equity method.

SECTION 2: GENERAL PREPARATION PRINCIPLES

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

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

The interim financial statements were prepared in accordance with IAS 34, applying the recognition and measurement criteria set out in the accounting standards endorsed by the European Commission and described in Part A.2 of these explanatory notes, as well as the general assumptions set out in the 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 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 rationalize a number of the tables in the notes in order to better reflect the harmonized European supervisory disclosure model forms.

Content of the financial statements and the notes to the financial statements

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

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

Statement of cash flows

The statements of cash flows for the present period 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.

Content of the notes to the financial statements

The explanatory notes to the financial statements include the information required by international accounting standards using the tables provided for in Bank of Italy Circular no. 262/2005 – 6th update of November 30, 2018.

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets (e.g. goodwill);
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the determination of the fair value of financial instruments to be used for financial reporting purposes;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- in the determination of discount rates for lease liabilities;
- the quantification of provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. The factors estimated for the main items include:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so;
- for the determination of deferred tax items, the degree of reasonable certainty – if any – that sufficient future taxable income will be available when the items may be deducted (deductible temporary differences).

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

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 associated future periods.

SECTION 3 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors on May 29, 2020, no events occurred that would entail a modification of the financial data approved at that meeting.

As regards the events related to the spread of the COVID-19 virus, which are extensively discussed in the report on operations, pursuant to IAS 10, these events are deemed non-adjusting for the purposes of the results presented in these financial statements.

At present, no reliable prospective estimates can be produced for their impact on the company business.

For more information and an initial assessment of the main areas of impact, please see the discussion in the report on operations.

SECTION 4 – OTHER MATTERS

Consolidated tax mechanism option

Iccrea Banca SpA and the Group subsidiaries belonging to the so-called “direct scope” (the former Iccrea Banking Group) have 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 interim financial statements have been audited by EY SpA, which was engaged for this purpose for the period 2019-2020 in execution of the shareholders’ resolution of April 30, 2019.

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.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI test" - *Solely Payments of Principal and Interest*).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale (including trading).

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Iccrea Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
    - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;

  - on the basis of the staging indicator for the loan portfolio;

- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a “benchmark test”, an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is “not genuine”, it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 – Financial assets measured at fair value through profit or loss

Classification

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an “other” business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the “host contract”). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Bank’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

Recognition

Debt and equity securities are initially recognized at the settlement date, while derivative contracts are recognized at the trade date. Financial assets 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.

Measurement

Financial assets measured at fair value through profit or loss 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 at the reporting date. For financial instruments that are not listed on active markets, including equity instruments, fair value is determined using valuation techniques and observable market data, such as: the price of listed instruments with similar features, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions.

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

Derecognition

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights to the cash flows expire, are extinguished 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 through profit or loss when the right to receive payment is established.

2 – Financial assets measured at fair value through other comprehensive income

Classification

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group’s commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

Reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Bank’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

Recognition

Financial assets measured at fair value through other comprehensive income 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 revenue determinable at the recognition date, even if settled at a later time.

Measurement

Following initial recognition, financial assets measured at fair value through other comprehensive income, other than equity instruments, 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 profit or loss.

Equity instruments classified in this category are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire, are extinguished 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 fair value are recognized in a specific equity reserve until the asset is derecognized. The value of interest computed using the effective interest rate method in application of the amortized cost method to assets measured at fair value through other comprehensive income is recognized through profit or loss. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

In addition to recognizing impairment losses, the cumulative gains and losses recognized in other comprehensive income are recognized through the income statement under item 100 ("Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income") at the time the asset is disposed of. Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 – Financial assets measured at amortized cost

Classification

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the bank's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

Recognition

Financial assets are initially recognized at the settlement date for debt securities and at the disbursement date for loans. The initial amount recognized is equal to the amount disbursed or subscription price, including costs and revenue 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

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

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

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 measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

- stage 1 and 2 including performing financial assets;
- stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;

- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses (stage 1);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses (stage 2);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer "significant" in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses (return to stage 1).

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9. The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as "impaired") and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations (stage 3).

Measurement of the financial assets takes account of the best 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.

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified at initial recognition as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire, are extinguished 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 determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset 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 assets and changes in their cash flows.

Transferred financial assets 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.

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts. In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:

  - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
  - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss. Interest calculated using the effective interest rate method in application of the amortized cost approach is also recognized through profit or loss.

4 – Hedging

The Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the "opt-out" option).

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 of 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 connected with the hedged risk on the hedged item is offset in profit or loss with the change in the fair value of the hedging instrument, which is also recognized through profit or loss. 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. Subsequent changes in the fair value of the derivative are recognized through profit or loss. 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 through profit or loss.

5 - Equity investments

Classification

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

Subsidiaries are entities for which the investor has the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and is also be exposed to the variability of the returns deriving from that power.

Under IFRS 10, the requirement of control is met when an investor simultaneously has:

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

Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Joint control is the contractually agreed sharing of control of an arrangement.

Equity interests in 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 revenue that are directly attributable to the transaction.

Measurement

Investments in subsidiaries are measured at cost, while investments in associates and joint ventures are accounted for using the equity method. 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 through profit or loss as an impairment loss.

Impairment testing of equity investments

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

Impairment indicators are essentially divided into two categories:

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

Derecognition

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, 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

Impairment losses are recognized in profit or loss. The recognition of the income effects in respect of equity investments accounted for using the equity method is discussed in Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information.

6 – Property, plant and equipment

Classification

Property, plant 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, plant 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.

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset shall be recognized at the time in which the leased asset effectively becomes available for use.

Measurement

Property, plant 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.

For a right-of-use asset determined in compliance with IFRS 16, after the initial recognition of the asset, a lessee shall measure the right-of-use asset applying a cost model less depreciation and impairment losses in accordance with IAS 16.

Derecognition

Property, plant 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. A gain or loss deriving from a change in the fair value of investment property is recognized through profit or loss.

7 – 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.

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

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 carried out following January 1, 2004 is recognized in an amount equal to the positive difference between the purchase price of the business combination including transaction costs and the fair value of the assets and liabilities acquired if that positive difference represents 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 reporting 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, the asset is tested for impairment. Any difference between its carrying amount and recoverable value is recognized in profit or loss. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in the income statement. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

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

Classification

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

Recognition

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets for which IFRS 5 requires the application of the measurement criteria established in the associated accounting standard for such assets (for example, financial assets within the scope of IFRS 9).

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, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). 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.

9 – 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 revenue 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 companies of the Group 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.

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the "direct scope" of the Group (the former Iccrea Banking Group), the tax positions of each Group company 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 taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished 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).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

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 measured at fair value through other comprehensive income or cash flow hedge derivatives), they are recognized in equity, under specific reserves where required (i.e. the valuation reserves).

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

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

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

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

Recognition of income components

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

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

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.

11 – Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued 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 revenue 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. See to the section on assets measured at amortized cost for information on the criteria for determining amortized cost.

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

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

12 – 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 embedded derivatives to be separated from hybrid instruments. 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 financial liabilities or other contractual forms 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 previous section on measuring financial assets at fair value through profit or loss for information on determining fair value.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

Recognition of income components

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

13 – Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities are irrevocably designated as at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch or if they contain an embedded derivative.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their 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 in accordance with the following rules:

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity);
- all other changes in fair value shall be recognized through profit or loss.

The amounts recognized in equity are not subsequently reversed to profit or loss. Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss. With regard to the criteria for determining fair value, please see the section on the measurement of financial liabilities held for trading.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

Recognition of income components

The result of measurement is recognized through profit or loss.

14 – 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 rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. If the asset is measured at fair value through other comprehensive income with no recycling to profit or loss of any gain or loss realized on disposal, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate are recognized through profit or loss in the period in which they emerge.

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

15 – 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 portion of termination benefits accruing 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 accruing amounts to the fund.

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- 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 for employee service, in profit or loss. 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 revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

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 through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue 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;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, which was adopted as from 2018, the following steps are followed in recognizing revenue from contracts with customers

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”. Amortization is performed a period that does not exceed the term of the lease and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost, while the income components of financial assets measured at fair value are determined using the effective interest rate method provided for in the amortized cost approach.

The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets ("POCI"), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation of the amortized cost.

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 significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche to the three distinct stages on the basis of the following:

- stage 1: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, do not show a significant increase in credit risk with respect to the date of disbursement/purchase. In this case, the 12-month expected loss is measured;
- stage 2: this includes instruments/tranches associated with performing loans/securities that, as at the date of analysis, show a significant increase in credit risk with respect to the date of disbursement/purchase. Regardless of the increase in credit risk with respect to the date of disbursement/purchase, satisfaction of two other conditions would also lead to classification in stage 2:
  - positions that at the reporting date have a probability of default in excess of a specified threshold;[28]
  - probation period: positions that at the reporting date are eligible for classification in stage 1 but have been classified in stage 2 at least once in the previous three months;[29]

  in this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

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

With regard to the securities portfolio:

- Probability of Default (PD): the PD at 12 months and multi-period PDs undergo forward-looking conditioning;
- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;

[28] This condition holds for positions that at reporting date have a conditional PD at 12 months of more than 20%.

[29] The probation period is not applied to positions assigned to state 2 in the previous three months solely due to the presence of forbearance measures that have lapsed as at the reporting date. This reflects the fact that forbearance is governed by a longer and more stringent probation period (24 months).

- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

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

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

In order to obtain a probability of default that reflects future macroeconomic conditions, “satellite models” are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The forecasts of the target variable, the default rate, are obtained through the definition - on the basis of two separate scenarios - of the future values of each of the macroeconomic variables and the application of the estimated regression coefficients. The results of the satellite model in each of the two distinct scenarios enable the calculation of multiplicative macroeconomic conditioning factors.[30]

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

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

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

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

Debt securities

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

Equity securities

Equity securities do not undergo impairment testing as they are carried at fair value.

Other non-financial assets

[30] The multipliers are constructed as the ratio between the forecast default rate obtained by calendar year and the last observed value of the target variable, differentiated by scenario.

Property, plant 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 as the greater of the fair value of the item of property, plant and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting 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 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.

Determination of fair value

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

Financial instruments

With regard to the methods for determining the fair value of financial instruments, please see the information in section A.4 - Fair value disclosures.

Non-financial assets

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

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. 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 “Provisions for risk and charges”.

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

Following adoption of IFRS 9, the Bank has not changed the business model it uses to manage its financial assets and, accordingly, no financial assets have been transferred between portfolios.

A.4 –FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under 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;
- 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

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.

The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable approach

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;
- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

Mark to model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may inputs that are not observable on the market be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The Bank uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

In 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 Normal Forward Model (Bachelier Model) with the exception of Bermuda swaptions and ratchet options, for which the One Factor Trinomial Hull-White approach is used. 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.

In particular, the Bank has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

For transactions in derivatives, the Bank has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;
- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Bank conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 FAIR VALUE HIERARCHY

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet).

The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- bad loans and positions unlikely to pay measured 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 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY FAIR VALUE INPUT LEVEL

	30/6/2020			31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	459,040	1,011,939	32,745	462,676	778,032	39,156
a) financial assets held for trading	12,447	591,964	119	11,972	381,302	51
b) financial assets designated as at fair value	358,503	45,804	-	362,091	23,019	-
c) other financial assets mandatorily measured at fair value	88,090	374,171	32,625	88,613	373,711	39,105
2. Financial assets measured at fair value through comprehensive income	754,464	59,697	111,070	279,445	72,842	14,846
3. Hedging derivatives	-	11,940	-	-	4,787	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	1,213,504	1,083,576	143,815	742,120	855,661	54,002
1. Financial liabilities held for trading	2,097	592,609	-	630	381,237	-
2. Financial liabilities designated as at fair value	-	337,104	-	-	424,058	-
3. Hedging derivatives	-	137,866	-	-	118,344	-
Total	2,097	1,067,579	-	630	923,640	-

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.

In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment (for default risk of counterparties) involved a decrease of about €8.5 thousand, while the Debt Value Adjustment (for default risk of the Bank) did not give rise to any changes.

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

During the period under review, differences emerged between the fair values posted at the time of initial recognition and the values recalculated at the same date using valuation techniques in accordance with IFRS 9 (paragraphs B.5.1.2 A letter b), with a net negative impact of €1,964 thousand in respect of hedging derivatives.

PART B
Information on the balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1,1 CASH AND CASH EQUIVALENTS: COMPOSITION

		Total 30/6/2020	Total 31/12/2019
a) Cash		86,259	135,660
b) Demand deposits with central banks		4,406	110,477
	Total	90,665	246,137

Sub-item b) includes amounts deposited on the PM account with the Bank of Italy, which is used to manage the liquidity of the Guarantee Scheme, and about €2.9 million in instant payments.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**11,968**	**1,481**	**-**	**8,381**	**6**	**-**
1.1 structured securities	489	-	-	510	-	-
1.2 other debt securities	11,478	1,481	-	7,872	6	-
2. Equity securities	**255**	**124**	**119**	**3,370**	**197**	**51**
3. Units in collective investment undertakings	**49**	**-**	**-**	**176**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	12,272	1,605	119	11,927	203	51
B. Derivatives						
1. Financial derivatives	**175**	**590,359**	**-**	**44**	**381,099**	**-**
1.1 trading	175	590,359	-	44	381,099	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	175	590,359	-	44	381,099	-
Total (A+B)	12,447	591,964	119	11,972	381,302	51

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**358,503**	**45,804**	**-**	**362,091**	**23,019**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	358,503	45,804	-	362,091	23,019	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
Total	358,503	45,804	-	362,091	23,019	-

The amount is entirely attributable to financial instruments subscribed by the Parent Company in accordance with the investment policy for the Ex Ante Quota of the Readily Available Funds connected with the Guarantee Scheme.

2.5 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**6,656**	**26,620**	**-**	**6,951**	**20,555**	**-**
1.1 structured securities	-	6,656	-	-	5,031	-
1.2 other debt securities	6,656	19,964	-	6,951	15,524	-
2. Equity securities	**3,997**	**8,354**	**18,948**	**3,962**	**-**	**25,824**
3. Units in collective investment undertakings	**77,437**	**339,197**	**13,670**	**77,699**	**353,156**	**13,264**
4. Loans	**-**	**-**	**7**	**-**	**-**	**17**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	7	-	-	17
Total	88,090	374,171	32,625	88,613	373,711	39,105

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR SpA:

- Fondo Securis Real Estate III, in the amount of €67,721 thousand;
- Fondo Securis Real Estate II, in the amount of €122,942 thousand;
- Fondo Securis Real Estate I, in the amount of €148,535 thousand.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – ITEM 30

3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION BY TYPE

	Total 30/6/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**749,916**	**20,742**	**105,014**	**273,088**	**36,751**	**-**
1.1 structured securities	8,171	3,137	-	3,159	-	-
1.2 other debt securities	741,744	17,605	105,014	269,929	36,751	-
2. Equity securities	**4,549**	**38,955**	**6,056**	**6,357**	**36,091**	**14,846**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**754,464**	**59,697**	**111,070**	**279,445**	**72,842**	**14,846**

3.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: GROSS VALUE AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			Total partial writeoffs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	747,287	716,795	130,799	-	(319)	(2,095)	-	-
Loans	-	-	-	-	-	-	-	-
Total 30/6/2020	**747,287**	**716,795**	**130,799**	**-**	**(319)**	**(2,095)**	**-**	**X**
Total 31/12/2019	**298,197**	**121,663**	**12,170**	**-**	**(347)**	**(181)**	**-**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

* Value to be reported for information purposes

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTIZED COST - ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/6/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**4,632,595**	**-**	**-**	**-**	**-**	**4,632,595**	**3,827,730**	**-**	**-**	**-**	**-**	**3,827,730**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	4,632,595	-	-	X	X	X	3,827,730	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**29,507,532**	**-**	**-**	**57,129**	**28,165,687**	**1,155,036**	**25,446,043**	**-**	**-**	**-**	**3,658,717**	**25,611,576**
1. Financing	25,882,802	-	-	-	24,816,206	1,049,239	21,700,649	-	-	-	-	25,528,379
1.1. Current accounts and demand deposits	568,695	-	-	X	X	X	608,175	-	-	X	X	X
1.2. Fixed-term deposits	96,698	-	-	X	X	X	103,248	-	-	X	X	X
1.3. Other financing:	25,217,409	-	-	X	X	X	20,989,227	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	25,217,409	-	-	X	X	X	20,989,227	-	-	X	X	X
2. Debt securities	3,624,730	-	-	57,129	3,349,481	105,797	3,745,394	-	-	-	3,658,717	83,197
2.1 Structured securities	1,989	-	-	-	2,459	-	1,985	-	-	-	-	25
2.2 Other debt securities	3,622,741	-	-	57,129	3,347,022	105,797	3,743,409	-	-	-	3,658,717	83,172
Total	**34,140,127**	**-**	**-**	**57,129**	**28,165,687**	**5,787,631**	**29,273,773**	**-**	**-**	**-**	**3,658,717**	**29,439,306**

Loans connected with pool collateral operations amount to €22,517 million of which €16,478 million granted within the framework of TLTRO with the European Central Bank and included under letter "B", item "Other financing– Other". Securities pledged as collateral amount to €25,152 million net of the haircut applied to the various types of securities.

In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At the end of the period loans received from Iccrea BancaImpresa securing the collateral pool amounted to €2,446 million, which net of the haircut decreased to about €1,688 million.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/6/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**6,105,276**	**7,290**	**-**	**-**	**2,106,842**	**4,052,784**	**5,834,965**	**7,519**	**-**	**-**	**-**	**5,842,484**
1.1. Current accounts	70,227	28	-	X	X	X	309,093	28	-	X	X	X
1.2. Repurchase agreements	3,236,369	-	-	X	X	X	2,885,420	-	-	X	X	X
1.3. Medium/long term loans	64,715	7,263	-	X	X	X	69,886	7,377	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	2,733,965	-	-	X	X	X	2,570,568	114	-	X	X	X
2. Debt securities	**9,074,918**	**60,945**	**-**	**8,597,274**	**135,913**	**569,578**	**7,366,734**	**68,050**	**-**	**6,947,936**	**243,934**	**394,752**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	9,074,918	60,945	-	8,597,274	135,913	569,578	7,366,734	68,050	-	6,947,936	243,934	394,752
Total	**15,180,193**	**68,235**	**-**	**8,597,274**	**2,242,755**	**4,622,362**	**13,201,699**	**75,569**	**-**	**6,947,936**	**243,934**	**6,237,236**

Amounts due from customers are reported net of writedowns for impairment

4.4 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: GROSS AMOUNT AND TOTAL WRITEOFFS

	Gross amount				Total writeoffs			Total partial writeoffs *
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	12,212,738	7,301,414	497,162	98,984	(3,239)	(7,014)	(38,039)	-
Loans	36,026,115	61,668	601,320	36,697	(2,894)	(3,867)	(29,407)	(373)
Total 30/6/2020	**48,238,853**	**7,363,083**	**1,098,482**	**135,681**	**(6,133)**	**(10,881)**	**(67,446)**	**(373)**
Total 31/12/2019	**42,113,004**	**7,486,496**	**370,656**	**142,601**	**(3,088)**	**(5,099)**	**(67,032)**	**(373)**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 30/6/2020			NV	FV 31/12/2019			NV
	L1	L2	L3	30/6/2020	L1	L2	L3	31/12/2019
A. Financial derivatives								
1. Fair value	-	11,685	-	825,975	-	4,584	-	50,000
2. Cash flows	-	255	-	50,000	-	203	-	13,352
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**11,940**	**-**	**875,975**	**-**	**4,787**	**-**	**63,352**

Key
NV=notional value
L1=Level 1
L2= Level 2
L3= Level 3

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/6/2020	Total 31/12/2019
1. Positive adjustments	**1,288**	**1,178**
1.1 of specific portfolios:	1,288	1,178
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	1,288	1,178
1.2 comprehensive	-	-
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	-	-
Total	**1,288**	**1,178**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	99.71	99.71
BCC Beni Immobili S.r.l.	Milan	Rome	100	100
BCC Retail S.c.a.r.l.	Milan	Milan	96,12	96,12
Ventis S.r.l.	Milan	Milan	95	95
Ventis S.pA	Rome	Rome	100	100
BCC Sistemi Informatici S.p.A.	Milan	Milan	98.53	98.53
BCC Risparmio e Previdenza SGrpA	Milan	Milan	75	75
BCC Gestione Crediti S.p.A.	Rome	Rome	100	100
BCC Solutions S.p.A.	Rome	Rome	100	100
BCC CreditoConsumo S.p.A.	Rome	Udine	96	96
Banca Sviluppo S.p.A.	Rome	Rome	76.51	76.51
Banca MedioCredito FVG S.p.A.	Udine	Udine	27.28	27.28
BCC Accademia S.c.p.A.	Rome	Rome	100	100
Sinergia	Milan	Treviglio	71.5	71.5
B. Joint ventures				
C. Companies subject to significant influence				
M-Facility S.r.l.	Rome	Rome	41.48	41.48
Hi-Mtf S.p.A.	Milan	Milan	25	25
BCC Vita S.p.A.	Milan	Milan	30	30
BCC Assicurazioni S.p.A.	Milan	Milan	30	30
Satispay S.p.A.	Milan	Milan	14.04	14.04
Bit - Servizi per L'Investimento sul Territorio	Parma	Parma	33.2	33.2
Hbenchmark S.r.l.	Altavilla Vicentina	Altavilla Vicentina	10.00	10.00

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Subsidiaries			
Iccrea BancaImpresa S.p.A.	706,024	-	4,757
BCC Beni Immobili S.r.l.	18,314	-	-
BCC Retail S.c.a.r.l.	944	-	-
Ventis S.r.l.	4,920	-	-
Ventis S.p.A.	350	-	-
BCC Sistemi Informatici S.p.A.	45,025	-	-
BCC Risparmio&Previdenza SGrpA	22,474	-	9,244
BCC Gestione Crediti S.p.A.	4,021	-	1,878
BCC Solutions S.p.A.	75,700	-	3,729
BCC CreditoConsumo S.p.A.	55,041	-	17,134
Banca Sviluppo S.p.A.	94,256	-	-
Banca Mediocredito FVG S.p.A.	22,019	-	-
BCC Accademia S.c.p.A.	800	-	-
Sinergia - Sistema di Servizi – S.c.a.r.l.	1,174		
B. Joint ventures			
C. Companies subject to significant influence			
M-Facility S.P.A.	234	-	-
Hi-Mtf S.p.A.	1,250	-	-
BCC Vita S.p.A.	77,100	-	-
BCC Assicurazioni	4,947	-	-
Satispay S.p.A.	8,112	-	-
Bit - Servizi per L'Investimento sul Territorio	1,696		
HBENCHMARK S.R.L.	500		
Total	**1,144,901**	**-**	**36,741**

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/6/2020	Total 31/12/2019
1. Owned assets	**326**	**14,633**
a) land	-	-
b) building	-	-
c) movables	216	228
d) electronic systems	60	14,082
e) other	50	323
2. Right-of-use assets acquired under finance leases	**2,993**	**2,492**
a) land	-	-
b) building	1,202	1,288
c) movables	-	-
d) electronic systems	-	-
e) other	1,792	1,204
Total	**3,319**	**17,125**
of which: obtained through enforcement of guarantees received	-	-

The item “Right-of-use assets acquired under finance leases” includes the right of use connected with leased assets (leased buildings and automobiles) in line with the provisions of the new IFRS 16.

The decrease in “electronic systems” is due to the reclassification of items associated with electronic money and ICT operations in the item A110 “Non-current assets and disposal groups held for sale”.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/6/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**1,856**	**-**	**53,946**	**-**
A.2.1 Assets carried at cost	1,856	-	53,946	-
a) internally generated intangible assets	-	-	-	-
b) other assets	1,856	-	53,946	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	1,856	-	53,946	-

The decrease in the item is due to the reclassification of items associated with electronic money and ICT operations in the item A110 "Non-current assets and disposal groups held for sale".

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/6/2020			31/12/2019		
1) Recognized in income statement	**30,904**	**29**	**30,932**	**31,296**	**32**	**31,328**
a) DTA pursuant to Law 214/2011	**2,444**	**29**	**2,473**	**2,627**	**32**	**2,658**
Total	2,380	29	2,409	2,627	32	2,658
Tax losses/Negative value of production pursuant to Law 214/2011	64	-	64	-	-	-
b) Other	**28,460**	**-**	**28,460**	**28,669**	**-**	**28,669**
Writedowns of amounts due from banks	395	-	395	395	-	395
Writedowns of loans to customers	116	-	116	123	-	123
Tax losses	23,128	-	23,128	23,128	-	23,128
Provisions for risks and charges	2,512	-	2,512	2,693	-	2,693
Costs of predominantly administrative nature	-	-	-	21	-	21
Other	2,309	-	2,309	2,309	-	2,309
2) Recognized in shareholders' equity	**4,012**	**771**	**4,783**	**1,642**	**292**	**1,934**
a) Valuation reserves:	**3,807**	**771**	**4,578**	**1,440**	**292**	**1,731**
Capital losses on financial assets measured through OCI	3,807	771	4,578	1,440	292	1,731
b) Other:	**205**	**-**	**205**	**203**	**-**	**203**
Actuarial gains/losses on provisions for employees	205	-	205	203	-	203
A. Total deferred tax assets	**34,915**	**800**	**35,715**	**32,938**	**323**	**33,262**
C. Net deferred tax assets - Total item 110 b)	**34,915**	**800**	**35,715**	**32,938**	**323**	**33,262**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES 30/6/2020	IRAP 30/6/2020	TOTAL	IRES 31/12/2019	IRAP 31/12/2019	TOTAL
1) Deferred tax liabilities recognized in income statement:	**-**	**-**	**-**	**-**	**-**	**-**
Writedowns of loans to customers deducted in separate section of tax return (not recognized in income statement)	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
2) Deferred tax liabilities recognized in shareholders' equity:	**1,073**	**217**	**1,290**	**1,170**	**237**	**1,407**
Valuation reserves:						
Capital gains on financial assets measured through OCI	1,073	217	1,290	1,170	237	1,407
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**1,073**	**217**	**1,290**	**1,170**	**237**	**1,407**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets -Total item 60 b)	**1,073**	**217**	**1,290**	**1,170**	**237**	**1,407**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2015, 2016, 2017, 2018 and 2019 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- in November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	30/6/2020	31/12/2019
A. Assets held for sale		
A.1 Financial assets	555	556
A.2 Equity investments	-	4,920
A.3 Property, plant and equipment	12,679	3
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	58,235	4,172
A.5 Other non-current assets	177,435	162,049
Total A	**248,904**	**171,700**
of which carried at cost	248,904	171,700
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	102,598	99,170
C.2 Securities	-	-
C.3 Other liabilities	176,530	56,760
Total C	**279,128**	**155,930**
of which carried at cost	279,128	155,930
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

During the period, the Bank classified the assets and liabilities of the electronic money and ICT operations of Iccrea Banca under non-current assets and disposal groups held for sale and associated liabilities.

SECTION 12 - OTHER ASSETS – ITEM 120

12.1 OTHER ASSETS: COMPOSITION

	Total 30/6/2020	Total 31/12/2019
- Receivables for future premiums on derivatives	47,063	25,896
- Fees and commissions and interest to be received	2,586	3,575
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	67,611	9,427
- Items in transit between branches and items being processed	176,119	3,442
- Financial assets in respect of loans granted for a specific transaction	71,266	85,864
- Accrued income not attributable to separate line item	163	-
- Prepaid expenses not attributable to separate line item	12,535	8,405
- Tax consolidation mechanism	16,518	13,463
- Other (security deposits, assets not attributable to other items)	28,506	2,917
Total	422,368	152,988

The item “Financial assets in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – ITEM 10

1.1 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - DUE TO BANKS: COMPOSITION BY TYPE

	Total 30/6/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**16,476,627**	X	X	X	**11,912,682**	X	X	X
2. Due to banks	**12,478,913**	X	X	X	**8,869,694**	X	X	X
2.1 Current accounts and demand deposits	2,878,622	X	X	X	1,989,866	X	X	X
2.2 Fixed term deposits	8,903,705	X	X	X	6,618,971	X	X	X
2.3 Loans	693,303	X	X	X	258,552	X	X	X
2.3.1 Repurchase agreements	442,467	X	X	X	19,778	X	X	X
2.3.2 Other	250,836	X	X	X	238,774	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	3,283	X	X	X	2,306	X	X	X
Total	28,955,540	-	12,013,191	17,040,878	20,782,376	-	20,611,443	265,186

The item “Due to central banks” mainly represents financing from the ECB (TLTRO II and TLTRO III).

The item “Due to banks” mainly regards intercompany transactions.

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST- DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/6/2020				Total 31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	830,529	X	X	X	959,107	X	X	X
2. Fixed-term deposits	55,012	X	X	X	50,011	X	X	X
3. Loans	15,927,492	X	X	X	15,789,731	X	X	X
3.1 Repurchase agreements	14,427,655	X	X	X	13,789,953	X	X	X
3.2 Other	1,499,837	X	X	X	1,999,778	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	3,028	X	X	X	2,512	X	X	X
6. Other liabilities	499,116	X	X	X	327,506	X	X	X
Total	17,315,177	-	13,914,961	3,408,572	17,128,866	-	8,740,853	8,080,248

The sub-item “Repurchase agreements” is composed entirely of transactions with the Clearing and Guarantee Fund.

The sub-item “Lease liabilities” regards the liability represented by future payments to lessors until the end of the term of the lease agreement, in accordance with IFRS 16.

The item “Other payables” comprises bankers’ drafts issued but not yet presented for settlement and sundry other payables.

1.3 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - SECURITIES ISSUED: COMPOSITION BY TYPE

	30/6/2020 Total				31/12/2019 Total			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	4,253,167	1,930,226	2,316,010	-	5,021,316	4,461,100	588,403	-
1.1 structured	-	-	-	-	1,607	-	1,613	-
1.2 other	4,253,167	1,930,226	2,316,010	-	5,019,710	4,461,100	586,790	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**4,253,167**	**1,930,226**	**2,316,010**	**-**	**5,021,316**	**4,461,100**	**588,403**	**-**

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, as well as unhedged bonds issued measured at amortized cost. The fair value of securities issued is calculated by discounting future cash flows using the swap yield curve as at the reporting date.

The sub-item “1.2 Bonds - other” includes subordinated securities amounting to €457 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	30/6/2020	31/12/2019
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**457,731**	**602,376**
- banks	457,731	**602,376**
- customers	**-**	-
Total	**457,731**	**602,376**

At June 30, 2020 the two subordinated securities placed with the mutual banks were redeemed early (-€118 million) with ECB authorization. At the same date, the following bonds were in issue:

- issue date March 6, 2014, Maturity date March 6, 2021, initial nominal value of €200 million, residual nominal value at June 30, 2020: €34.210 million; annual interest rate 4.75% fixed gross, interest paid annually in arrears, repayment through periodic amortization as from the third year in 5 equal annual instalments;
- issue date July 30, 2015, Maturity date July 30, 2025, residual nominal value at June 30, 2020: €15.996 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;
- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at June 30, 2020: €396.163 million, interest rate 4.125%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

Right of use	Falling due within 5 years	Falling due after 5 years
Buildings	1,203	-
Other	1,825	-

Lease liabilities regard property leases and automobile rentals, in accordance with the provisions of IFRS16.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	1,304	1,375	-	-	1,375	290	312	-	-	312
2. Due to customers	323	253	79	-	332	332	313	-	-	313
3. Debt securities	-	-	-	-		-	-	-	-	X
3.1 Bonds	-	-	-	-		-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**1,627**	**1,628**	**79**	**-**	**1,707**	**622**	**625**	**-**	**-**	**625**
B. Derivatives										
1. Financial derivatives		470	592,530	-		X	5	381,237	-	X
1.1 Trading	X	470	592,530	-	X	X	5	381,237	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-		X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**470**	**592,530**	**-**	**X**	**X**	**5**	**381,237**	**-**	**X**
Total (A+B)	**X**	**2,097**	**592,609**	**-**	**X**	**X**	**630**	**381,237**	**-**	**X**

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

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 30

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

	Total 30/6/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**337,431**	**-**	**337,104**	**-**	**337,104**	**419,576**	**-**	**424,058**	**-**	**424,058**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	337,431	-	337,104	-	X	419,576	-	424,058	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees issued	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**337,431**	**-**	**337,104**	**-**	**337,104**	**419,576**	**-**	**424,058**	**-**	**424,058**

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

The entire amount is represented by the affiliated banks' Ex Ante Quota of the contribution to the Guarantee Scheme, adjusted to take account of net interest and commissions on the loan.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 30/6/2020			NV	Fair value 31/12/2019			NV
	L1	L2	L3	30/6/2020	L1	L2	L3	31/12/2019
A) Financial derivatives	**-**	**137,866**	**-**	**2,874,704**	**-**	**118,344**	**-**	**4,216,965**
1) Fair value	-	134,786	-	2,596,859	-	118,009	-	4,185,810
2) Cash flows	-	3,080	-	277,846	-	334	-	31,155
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**137,866**	**-**	**2,874,704**	**-**	**118,344**	**-**	**4,216,965**

Key:
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

SECTION 6 – TAX LIABILITIES– ITEM 60

See section 10 under assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70

See section 11 under assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/6/2020	Total 31/12/2019
Amounts due to social security institutions and State	12,002	15,058
Amounts available to customers	4,423	7,724
Liabilities for future premiums on derivatives	4,157	4,698
Tax payables due to tax authorities	53,168	48,178
Payables due to employees	4,893	12,728
Financial liabilities in respect of loans granted for a specific transaction	71,266	85,864
Accrued expenses not attributable to separate line item	272	113
Deferred income not attributable to separate line item	828	5,574
Items in transit and items being processed	17,105	37,554
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	-	81,529
Subsidiaries – Group VAT	41,889	8,217
Consolidated taxation mechanism	22,173	22,190
Total	232,175	329,426

The sub-item “Financial liabilities in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

The sub-item “Other” reflects other liabilities connected with the disposal of the ICT business unit, which were reclassified under “Liabilities associated with assets held for sale”.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/6/2020	Total 31/12/2019
A. Opening balance	**18,003**	**10,176**
B. Increases	**466**	**8,615**
B.1 Provisions for the period	187	963
B.2 Other increases	279	7,651
C. Decreases	**2,441**	**788**
C.1 Benefit payments	473	788
C.2 Other decreases	1,968	-
D. Closing balance	**16,027**	**18,003**
Total	16,027	18,003

The decrease registered under sub-item “Decreases– Other decreases” mainly reflects the reclassification of items connected with the ICT business unit under “Liabilities associated with assets held for sale”.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/6/2020	Total 31/12/2019
1. Provisions for credit risk in respect of commitments and financial guarantees issued	82	41
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	8,496	10,435
4.1 legal disputes	3,570	5,254
4.2 personnel expense	1,189	1,692
4.3 other	3,737	3,489
Total	8,578	10,476

The change in the sub-item “legal disputes” is due to the use of provisions for revocatory actions in bankruptcy. The sub-item “personnel expenses” was affected by the reclassification of items connected with the ICT business unit under “Liabilities associated with assets held for sale”.

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

	Total 30/6/2020	Total 31/12/2019
A. Share capital		
A.1 Ordinary shares	1,401,045	1,401,045
A.2 Savings shares	-	-
A.3 Preference shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	(4,608)	(4,608)
B.2 Savings shares	-	-
B.3 Preference shares	-	-
B.4 Other shares	-	-

12.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**27,125,759**	**-**
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	(87,267)	-
A.2 Shares in circulation: opening balance	**27,038,492**	**-**
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	**27,038,492**	**-**
D.1 Treasury shares (+)	87,267	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

PART C
Information on the income statement

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/6/2020	Total 30/6/2019
1. Financial assets measured at fair value through profit or loss	**2,289**	**-**	**-**	**2,289**	**2,311**
1.1 Financial assets held for trading	400	-	-	400	553
1.2 Financial assets designated at fair value	1,554	-	-	1,554	1,231
1.3 Other financial assets mandatorily at fair value	335	-	-	335	527
2. Financial assets measured at fair value through other comprehensive income	**1,243**	**-**	**X**	**1,243**	**2,342**
3. Financial assets measured at amortized cost	**64,144**	**13,488**	**X**	**77,632**	**87,055**
3.1 Due from banks	29,611	2,852	X	32,463	35,813
3.2 Loans to customers	34,532	10,636	X	45,169	51,243
4. Hedging derivatives	**X**	**X**	**(4,183)**	**(4,183)**	**-**
5. Other assets	**X**	**X**	**139**	**139**	**-**
6. Financial liabilities	**X**	**X**	**X**	**70,173**	**50,443**
Total	67,675	13,488	(4,044)	147,292	142,152
of which: interest income on impaired financial assets	117	4	-	121	561
of which: interest income from finance leases	-	-	-	-	-

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/6/2020	Total 30/6/2019
1. Financial liabilities measured at amortized cost	**(20,793)**	**(40,475)**	**X**	**(61,268)**	**(39,600)**
1.1 Due to central banks	(80)	X	X	(80)	(10)
1.2 Due to banks	(18,757)	X	X	(18,757)	(18,527)
1.3 Due to customers	(1,956)	X	X	(1,956)	(1,510)
1.4 Securities issued	X	(40,475)	X	(40,475)	(43,730)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**(581)**
4. Other liabilities and provisions	**X**	**X**	**(114)**	**(114)**	**-**
5. Hedging derivatives	**X**	**X**	**249**	**249**	**(8,783)**
6. Financial assets	**X**	**X**	**X**	**(51,153)**	**(39,600)**
Total	(20,793)	(40,475)	135	(112,286)	(112,741)
of which: interest expense on lease liabilities	(35)	-	-	(35)	(28)

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	30/6/2020	30/6/2019
a) guarantees issued	319	556
b) credit derivatives	-	-
c) management, intermediation and advisory services:	12,074	12,518
1. Trading in financial instruments	2,353	1,695
2. foreign exchange	23	85
3. asset management (individual)	-	-
4. securities custody and administration	2,894	4,134
5. depository services	-	-
6. securities placement	5,783	5,082
7. order collection and transmission	613	1,117
8. advisory services	408	406
8.1 concerning investments	-	-
8.2 concerning financial structure	408	406
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	18,591	19,250
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	108	110
j) other services	6,686	8,625
Total	**37,779**	**41,059**

The sub-item “a) guarantees issued” reports fee and commission expense (Parent Company share and mutual bank share) in respect of the ex post commitments for the Guarantee Scheme.

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
a) guarantees received	(395)	(770)
b) credit derivatives	-	-
c) management and intermediation services:	(8,211)	(3,193)
1. trading in financial instruments	(717)	(632)
2. foreign exchange	(7)	(18)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(2,735)	(2,019)
5. placement of financial instruments	(4,752)	(525)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(1,449)	(1,630)
e) other services	(849)	(1,635)
Total	**(10,904)**	**(7,228)**

The sub-item “a) guarantees received” reports fee and commission expense (Parent Company share and mutual bank share) in respect of the ex post commitments for the Guarantee Scheme.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/6/2020		Total 30/6/2019	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	2	-	45	-
B. Other financial assets mandatorily measured at fair value	84	-	368	-
C. Financial assets measured at fair value through other comprehensive income	213	-	590	-
D. Equity investments	36,741	-	50,223	-
Total	37,041	-	51,226	-

Dividends received mainly regard:

- BCC CreditoConsumo € 17.1 million;
- BCC Risparmio&Previdenza €9.2 million;
- Iccrea BancaImpresa €4.7 million;
- BCC Gestione Crediti €1.9 million;
- BCC Solutions €1.8 million.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**43**	**9,881**	**(177)**	**(1,663)**	**8,084**
1.1 Debt securities	30	9,563	(167)	(1,080)	8,347
1.2 Equity securities	9	248	(10)	(448)	(201)
1.3 Units in collective investment undertakings	4	55	-	(135)	(76)
1.4 Loans	-	-	-	-	-
1.5 Other	-	15	-	-	15
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**(64,797)**
4. Derivatives	**156,549**	**43,659**	**(156,776)**	**(44,331)**	**64,294**
4.1 Financial derivatives:	156,549	43,659	(156,776)	(44,331)	64,294
- on debt securities and interest rates	154,316	43,659	(156,659)	(42,947)	(1,633)
- on equity securities and equity indices	2,234	-	(117)	(1,384)	733
- on foreign currencies and gold	X	X	X	X	65,194
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	156,592	53,539	(156,953)	(45,994)	7,581

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
A. Gain on:		
A.1 Fair value hedges	17,986	1,289
A.2 Hedged financial assets (fair value)	48,768	92,869
A.3 Hedged financial liabilities (fair value)	187	-
A.4 Cash flow hedges	141	585
A.5 Assets and liabilities in foreign currencies	455	-
Total income on hedging activities (A)	**67,537**	**94,744**
B. Loss on:		
B.1 Fair value hedges	(48,407)	(94,389)
B.2 Hedged financial assets (fair value)	(20,089)	(67)
B.3 Hedged financial liabilities (fair value)	(149)	(1,549)
B.4 Cash flow hedges	(146)	-
B.5 Assets and liabilities in foreign currencies	(853)	(411)
Total expense on hedging activities (B)	**(69,644)**	**(96,416)**
C. Net gain (loss) on hedging activities (A - B)	**(2,107)**	**(1,673)**
of which: net gain (loss) of hedges of net positions	-	-

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/6/2020			Total 30/6/2019		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	49,294	(1,352)	47,942	21,547	(766)	20,781
1.1 Due from banks	14	(1)	14	1	(1)	1
1.2 Loans to customers	49,280	(1,351)	47,929	21,546	(765)	20,781
2. Financial assets measured at fair value through other comprehensive income	2,359	(1,707)	652	3,446	(4,432)	(986)
2.1 Debt securities	2,359	(1,707)	652	3,446	(4,432)	(986)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**51,653**	**(3,059)**	**48,594**	**24,993**	**(5,198)**	**19,795**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	442	(72)	370	780	(301)	479
Total liabilities (B)	**442**	**(72)**	**370**	**780**	**(301)**	**479**

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.1 NET ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) -
1. Financial assets	**989**	**19**	**(2,808)**	**(18)**	**(1,818)**
1.1 Debt securities	989	19	(2,808)	(18)	(1,818)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**1,768**	**-**	**(1,441)**	**-**	**327**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	1,768	-	(1,441)	-	327
2.3 Due to customers	**-**	**-**	**-**	**-**	**-**
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**2,758**	**19**	**(4,250)**	**(18)**	**(1,491)**

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) -
1. Financial assets	**2,538**	**226**	**(12,625)**	**-**	**(9,861)**
1.1 Debt securities	-	49	(1,595)	-	(1,546)
1.2 Equity securities	1,813	37	-	-	1,850
1.3 Units in collective investment undertakings	725	140	(11,029)	-	(10,164)
1.4 Loans	-	-	(1)	-	(1)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**2,538**	**226**	**(12,625)**	**-**	**(9,861)**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Sage 3	30/6/2020	30/6/2019
A. Due from banks	**(2,837)**	**-**	**-**	**6**	**-**	**(2,832)**	**(176)**
- loans	(2,837)	-	-	-	-	(2,837)	(176)
- debt securities	-	-	-	6	-	6	-
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(5,996)**	**(65)**	**(589)**	**-**	**151**	**(6,498)**	**(403)**
- loans	(619)	(65)	(589)	-	151	(1,122)	376
- debt securities	(5,376)	-	-	-	-	(5,376)	(778)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(8,833)**	**(65)**	**(589)**	**6**	**151**	**(9,330)**	**(578)**

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)			Recoveries (2)		Total 30/6/2020	Total 30/6/2019
		Stage 3					
	Stage 1 and 2	Write-off	Other	Stage 1 and 2	Stage 3		
A. Debt securities	(1,885)	-	-	-	-	(1,885)	(52)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(1,885)**	**-**	**-**	**-**	**-**	**(1,885)**	**(52)**

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

10.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
1) Employees	(81,828)	(63,037)
a) wages and salaries	(53,881)	(45,034)
b) social security contributions	(15,053)	(11,116)
c) termination benefits	(1,132)	(692)
e) allocation to employee termination benefit provision	(198)	(163)
g) payments to external pension funds:	(5,133)	(3,063)
- defined contribution	(5,133)	(3,063)
i) other employee benefits	(6,430)	(2,968)
2) Other personnel	(178)	(75)
3) Board of Directors and members of Board of Auditors	(1,630)	(1,177)
5) Recovery of expenses for employees seconded to other companies	3,756	3,649
6) Reimbursement of expenses for third-party employees seconded to the Company	(1,418)	(1,130)
Total	**(81,298)**	**(61,769)**

Personnel expenses increased following the reorganization involved with the formation of the ICBG.

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
Information technology	(4,025)	(40,774)
Property and movables	(849)	(13,876)
- rental and fees	(713)	(13,876)
- ordinary maintenance	(136)	-
- security	-	-
Goods and services	(3,576)	(1,902)
- telephone and data transmission	(1,537)	(587)
- postal	-	(128)
- asset transport and counting	(99)	(26)
- electricity, heating and water	(196)	(201)
- transportation and travel	(1,314)	(875)
- office supplies and printed materials	(429)	(67)
- subscriptions, magazines and newspapers	-	(18)
Professional services	(7,612)	(10,861)
- professional fees (other than audit fees)	(7,343)	(9,960)
- audit fees	(268)	(231)
- legal and notary costs	-	(668)
- court costs, information and title searches	-	(2)
Administrative services	(9,816)	(2,470)
Insurance	(379)	(310)
Promotional, advertising and entertainment expenses	(1,193)	(2,121)
Association dues	(1,419)	(1,368)
Donations	(493)	-
Other	(10,382)	(1,161)
Indirect taxes and duties	(32,140)	(25,188)
- stamp duty	(1,180)	(2,298)
- long-term loan tax - Pres. Decree 601/73	-	-
- municipal property tax	-	-
- financial transaction tax	-	(20)
- other indirect taxes and duties	(30,960)	(22,869)
Total	**(71,884)**	**(100,031)**

The change in Other administrative expenses is mainly attributable to the reclassification of costs connected with IT operations (€30 million), as well as an increase in the contribution to the National Resolution Fund (BRRD) (+€8.1 million), offset by the recognition of an out-of-period adjustment (-€7.5 million) due the reversal of the erroneous recognition of costs in the previous period.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

11.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	30/6/2020		
	Provisions	Reallocation of excess	Total
Commitments to disburse funds Stage 1	(31)	-	(31)
Commitments to disburse funds Stage 2	(5)	-	(5)
Commitments to disburse funds Stage 3	-	-	-
Financial guarantees issued Stage 1	(5)	-	(5)
Financial guarantees issued Stage 2	-	-	-
Financial guarantees issued Stage 3	-	-	-
Total	**(41)**	**-**	**(41)**

Provisions and reversals also include the effect of the passage of time (discounting effect).

For further details on the impairment model adopted by the Bank and used to determine the net provisions shown in the table, see Part A "Accounting Policies" of the notes to the financial statements.

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/6/2020		
	Provisions	Reallocation of excess	Total
Legal disputes	(133)	227	94
Other	(552)	-	(552)
Total	**(685)**	**227**	**(458)**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 180

12.1. NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(793)	-	-	(793)
- owned	(51)	-	-	(51)
- right-of-use assets acquired under leases	(742)	-	-	(742)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**(793)**	**-**	**-**	**(793)**

SECTION 13 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned	(281)	-	-	(281)
- generated internally by the Bank	-	-	-	-
- other	(281)	-	-	(281)
A.2 Right-of-use assets acquired under leases	-	-	-	-
Total	**(281)**	**-**	**-**	**(281)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/6/2020	Total 30/06/2019
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	-	-
Reductions in assets not attributable to separate line item	-	-
Prior-year expenses not attributable to separate line item	-	-
Costs of outsourced services	-	-
Sundry expenses	(835)	(1,156)
Settlement of disputes and claims	-	-
Amortization of expenditure for leasehold improvements	-	-
Other charges – extraordinary transactions	-	-
Robbery and theft	-	-
Other charges	-	-
Total	**(835)**	**(1,156)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
A) Recoveries	**14,098**	**24,346**
Recovery of taxes	67	45
Recovery for services to Group companies	-	24,301
Recovery of sundry charges	14,031	-
B) Other income	**54,868**	**2,256**
Insourcing revenues	53,774	-
Prior-year income not attributable to separate line item	350	-
Other income	744	2,256
Total	**68,966**	**26,602**

The increase in other operating income is mainly attributable to the new Class 1 and Class 2 services billed to the affiliated banks.

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(25,540)**	**(2,322)**
1. Writedowns	-	-
2. Impairment losses	(25,540)	(2,322)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(25,540)**	**(2,322)**

The increase is attributable to the impairment recognized on the investments in Iccrea BancaImpresa (€24 million) and Banca Sviluppo (€1.5 million).

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
1. Current taxes (-)	1,630	3,119
2. Change in current taxes from previous period (+/-)	(85)	2
3. Reduction of current taxes for the period (+)	4,052	3,002
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	185	-
4. Change in deferred tax assets (+/-)	(395)	19
5. Change in deferred tax liabilities (+/-)	-	-
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**5,387**	**6,142**

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 30/6/2020	Total 30/6/2019
1. Revenue	171,423	182,241
2. Expense	(197,592)	(171,932)
3. Result of measurement of groups of assets and associated liabilities	(3)	-
4. Gain (loss) on realization	-	-
5. Taxes and duties	(4,052)	(3,002)
Profit (loss)	**(30,224)**	**7,308**

The figures report the balance of costs and income from electronic money and ICT operations.

PART D
Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		30/6/2020	30/6/2019
10.	**Net profit (loss) for the period**	**(6,207)**	**16,130**
	Other comprehensive income not recyclable to profit or loss	**(5,044)**	**1,946**
20.	Equity securities designated as at fair value through other comprehensive income:	(7,528)	3,794
	a) fair value changes	(7,528)	3,794
	b) transfers to other elements of shareholders' equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(7)	(818)
80.	Non-current assets held for sale	-	-
90.	Valuation reserves of equity investments accounted for with equity method	-	-
100.	Income taxes on other comprehensive income not recyclable to profit or loss	2,491	(1,030)
	Other comprehensive income recyclable to profit or loss	**926**	**5,257**
110.	Hedging of investments in foreign operations:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	404	591
	a) fair value changes	(347)	(1,048)
	b) reversal to income statement	752	1,639
	c) other changes	-	-
	of which: result on net positions	-	-
140.	Hedging instruments (undesignated elements):	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	47	7,279
	a) fair value changes	(2,198)	6,752
	b) reversal to income statement	2,245	527
	- adjustments for credit risk	1,885	(30)
	- gain/loss on realization	360	557
	c) other changes	-	-
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Valuation reserves of equity investments accounted for with equity method:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	- impairment adjustments	-	-
	- gain/loss on realization	-	-
	c) other changes	-	-
180.	Income taxes on other comprehensive income recyclable to profit or loss	474	(2,613)
190.	**Total other comprehensive income**	**(4,118)**	**7,203**
200.	**Comprehensive income (item 10+190)**	**(10,325)**	**23,333**

PART E
Risk and risk management policies

INTRODUCTION

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

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy. The internal control system (ICS) governs the RMP, ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the governance framework defined at Group level.

The structure of the internal control system was designed by the Parent Company, Iccrea Banca, in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies, focusing particular attention on the following elements:

- proportionality, namely applying a regulatory framework based on the nature of the business conducted, the type of services performed, the complexity of operations and the size of the affiliated banks, the companies and the ICBG as a whole;
- integration, that is, finding mechanisms that coordinate and harmonize the actions of the various actors in the internal control system, using methodologies that provide top management with comprehensive, usable information generated by a coordinated assessment process enabling a unified vision for making information decisions;
- cost effectiveness, in the sense of the search for an appropriate balance between the overall cost of control and effective management of risks;
- evolution, namely the on-going search for mechanisms to improve the structure, effectiveness and efficiency of the internal control system and its compliance with market best practice.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system, developing and implementing their control model through the set of rules, functions, structures, resources, processes and procedures designed to pursue, in compliance with the principles of sound and prudent management, the following purposes:

- verification of the implementation of corporate strategies and policies;
- support for the development of risk management arrangements and processes;
- ongoing monitoring of the appropriateness of risk management arrangements and processes;
- ongoing monitoring of risks and their containment within the limits indicated in the risk appetite framework ("RAF");
- preserving the value of assets and protecting against losses;
- the effectiveness and efficiency of business processes;
- the reliability and security of corporate information and IT procedures;
- prevention of the risk that the affiliated banks and the ICBG companies could be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, rules and procedures.

THE GROUP INTERNAL CONTROL SYSTEM

The Iccrea Cooperative Banking Group has developed a centralized governance model for the corporate control functions, on the basis of which the Parent Company regulates the operational criteria and main powers of the corporate control functions, determining their interrelations and relations with top management. The Parent Company is responsible for defining a unified system that enables effective control of the strategic decisions of the Group as a whole and of the operational equilibrium of its individual members. To this end, the Group has established appropriate corporate control functions, endowed with autonomy and independence, reporting directly to the Parent Company's Board of Directors. In particular, the following Areas have been established:

- Chief Audit Executive Area (CAE) for the Internal Audit function;
- Chief Risk Officer Area (CRO) for the Risk Management function;
- Chief Compliance Officer Area (CCO) for the Compliance function;

- Chief AML Officer Area (CAMLO) for the Anti-Money Laundering function.

The Internal Audit function is a third level control body, while the other functions perform second level controls.

THE INTERNAL AUDIT FUNCTION

Working through the units it coordinates, the Chief Audit Executive area performs third-level controls, which seek to assess the completeness, functionality and adequacy of the internal control system, the information system, the risk management process, as well as the so-called Risk Appetite Framework, and to provide suggestions and recommendations to improve the effectiveness and efficiency of the organization and the risk management and control policies and processes of the Group. The manager of the Chief Audit Executive Area is the Chief Audit Executive (CAE). The CAE directs and supervises, with the support of the individual internal audit managers of the Group banks and companies and the managers of the other units of the Function, the internal auditing of the Parent Company and the companies within the scope of the Parent Company's management and coordination functions, consistent with the provisions of the Cohesion Contract and by the general rules of the Function. The CAE is also the Internal Audit Manager (IAM) of the Parent Company, Iccrea Banca.

Among its other activities, Internal Audit performs the following functions:

- unifies the internal audit process within the Group, including through its management, coordination, supervision and control activities, in order to assess the Group's overall internal control system;
- maintains direct relations with the corporate bodies of the Parent Company, reporting to them on the results of audit activities involving the entire Group;
- manages relations with the supervisory authorities with regard to Internal Audit issues concerning the Group;
- ensures the uniformity of the processes, methodologies and tools used in the performance of the audit activities, identifying all initiatives designed to ensure the functionality, effectiveness and efficiency of internal audit activities;
- provides an integrated vision in the planning of audit activities, centralizing the preparation of audit plans on a multi-year and annual basis for the Parent Company, the companies within the scope of the Parent Company's management and coordination functions - carried out with the support of the IAMs of the banks and Group companies - and managing any related changes/additions, liaising with the corporate bodies of the banks and companies involved;
- coordinates, through the units of the Function (central and local offices), the implementation of all internal audit activities (e.g. risk assessment, preparation of audit plans, auditing processes, the branches of the affiliated banks and information systems, reporting, follow-up, etc.) for the Group;
- coordinates, with the support of the competent unit of the Function, consolidated audit activities, i.e. those regarding issues concerning the entire Group;
- ensures the implementation of any extraordinary inspections approved by the Board of Directors, at the request of the corporate bodies and/or the senior management of the Parent Company and/or of the other Group banks/companies, as well as the supervisory authorities;
- monitors, with the support of the units of the Function, the progress of internal audit activities at the Group level with respect to plans;
- coordinates, with the support of the units of the Function, the implementation of the consulting activities requested by the corporate bodies and/or the senior management of the Parent Company and/or of the other Group banks/companies;
- provides appropriate reporting to the corporate bodies of the Group banks and companies on the activities performed by central and peripheral internal audit units;
- monitors and ensures compliance, with the support of the IAMs, with the service level agreements concerning internal audit services performed under outsourcing contracts with the Group banks and companies;
- performs and monitors follow-up activities with the support of the IAMs;
- coordinates, with the support of the unit managers of the Function, the resources allocated to the Function;
- contributes, in coordination with the Human Resources function with regard to the Group training system, to the planning and implementation of training programs for the skill areas within the scope of their responsibilities;
- reports to the corporate bodies and/or the senior management of the Parent Company, in coordination with the Human Resources function, any shortfalls of resources, ensuring that the resources available are appropriate and sufficient for the execution of the approved plans;

- ensures the implementation of and compliance with the overall Quality Assurance and Improvement Program of internal audit activities, in compliance with the International Professional Practices Framework for internal audit and the principles and rules of conduct of the Code of Ethics.

THE RISK MANAGEMENT FUNCTION

The Chief Risk Officer area is responsible at the Group level for second-level control activities connected with the management of credit, financial and operational risks, including IT risks. It is the contact for the corporate bodies of the Parent Company for matters within its scope of responsibility, providing an integrated and composite vision of the set of risks that are being assumed and managed by the individual entities and by the Group as a whole.

The organizational structure of the Risk Management function of the Parent Company of the Iccrea Cooperative Banking Group includes the following structures:

- a "Group Risk Management" unit, which ensures the supervision and coordination of the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the assumption and management of specific risks, as well as risk assessment and monitoring and identification of any mitigation measures;
- a "Mutual Bank Risk Management" unit, which represents the "control center" for the risk profile of the individual affiliated banks, with responsibility for controlling and activating Early Warning System processes, in addition to representing the heads of the territorial Risk Management units and collaborating with Group Risk Management in defining the methodological and operational aspects of the Risk Management process, with particular regard to the aspects concerning the affiliated banks;
- units reporting directly (e.g. Validation) and supporting the CRO.

Serving within the Parent Company's "Mutual Bank Risk Management" are area coordinators (the heads of the three Mutual Bank Risk Management Coordination units) and a "Risk Management Territorial Specialist", representing the local Risk Management specialist. In this context, the Risk Management (RM) Territorial Specialist, with the contribution of associates if appropriate, supports the Risk Management units of the affiliated banks in determining and adopting strategies, policies and processes for the identification, assessment and control of the risks specified by the Risk Management function at the Iccrea Cooperative Banking Group level.

The main duties performed by the Risk Management function are the following:

- participating in the definition and development of the framework for the assumption and management of risks pertaining to the Group, ensuring that it is:
  - compliant with applicable regulations, in line with market best practice and consistent with internal operational conditions;
  - consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the ICAAP and the ILAAP of the Group.

The risk assumption and management framework consists of:

- organizational structures and corporate processes (operating, administrative and business), including line controls;
- risk governance policies (policies, limits, responsibilities);
- methodologies and risk measurement and assessment criteria;
- supporting applications.
- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives in relation to the assumed and/or assumable risks (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- acting as a "control center" for the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Mechanism. In this area:
  - it handles the development and updating of the methodological framework and develops appropriate tools for the operation of the Guarantee Mechanism, as well as analyzing, controlling, assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - it directs, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.
- monitoring developments in the risk profile and the exposure to the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, it:

- develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
- performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;
- 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;
- 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);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to resolve the issues;
- 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;

- within the scope of its duties, performing tasks required for the purpose of supervisory reporting, inspections and regulations.

The manager of the Chief Risk Officer Area is the Chief Risk Officer.

THE COMPLIANCE FUNCTION

The Compliance function is the Group's second-level control function, which adopts a risk-based approach in the management of compliance risk. The Group Compliance function is performed within the Chief Compliance Officer Area. The manager of the Chief Compliance Officer Area is the Chief Compliance Officer. The Chief Compliance Officer directs and supervises, with the support of the individual heads of the compliance functions of the affiliated banks and Group companies (compliance officers) and the managers of the other organizational units of the Function, the process of managing compliance risk, directing and coordinating the performance of compliance activities for the Group, consistent with the provisions of the Cohesion Contract, and the Function's policies and rules. In this context, based on the Group's organizational and operational model and the agreements for the outsourcing of the compliance function of the affiliated banks, the Function identifies, evaluates and monitors the applicable regulations for the entire Group, measuring and assessing the impact of those regulations on company processes and procedures. It also develops prevention and control policies, in compliance with the level of risk and the limits specified in the Risk Appetite Framework. The Chief Compliance Officer is responsible for the Compliance Function of Iccrea Banca.

Among its other activities, Compliance performs the following functions:

- unifies the compliance process, including through its management, coordination, supervision and control activities, in order to assess the overall management of compliance risk;
- monitors regulatory developments, identifying on an ongoing basis the scope of application of regulatory changes, the risks for which it is responsible and the related impact on corporate processes and procedures, coordinating the associated activities of the various company units involved;
- collaborates with the competent units in accordance with the guidelines received from the Board of Directors in defining the structure, the organizational reporting flows, duties, responsibilities and the operating model, including the definition of internal rules in its area of responsibility, the risk measurement methods, procedures for overseeing regulatory developments, tools to support the activity and standards of representation and reporting;
- provides the planning and reporting guidance for the activities it performs in order to ensure that the Parent Company's corporate bodies have a unified view of the Group's compliance risk;
- supervises and coordinates, through the Function's units, the process of verifying the adequacy and effectiveness of processes, procedures, company structures and measures adopted to ensure compliance with regulatory requirements, monitoring the status of the action plans in this area;
- recommends organizational and procedural changes designed to ensure adequate monitoring of compliance risks;

- collaborates with the competent units in developing the Risk Appetite Framework and the Risk Appetite Statement, based on the provisions of applicable internal and external rules and regulations;
- maintains direct relations and prepares reporting flows for the corporate bodies of the Parent Company and the units involved in order to periodically communicate its assessment of the state of the compliance risk safeguards installed and recommends the initiatives to be taken for their adaptation to legislative developments;
- formulates opinions regarding proposed new products/services/markets, changes in company processes or related organizational arrangements, coordinating the activities performed at the Group level;
- supervises the management and execution of the compliance activities carried out by the Bank's specialist units;
- with the support of the Function's units, provides advisory services to the various corporate units and to the corporate bodies of the Parent Company, including through participation in working groups for the development/revision of internal processes, coordinating activities performed at the Group level;
- coordinates, in collaboration with the Human Resources function, the overall Group training system and the processes that govern its operation, planning and implementing training initiatives in the areas for which it is responsible;
- provides advisory opinions on the appointment or removal of the heads of the compliance functions of the affiliated banks and the other Group companies and gives its opinions on the management policies of the associated managers proposed by their respective boards of directors;
- manages relations with the supervisory authorities for matters in its area of responsibility and ensures compliance with informational supervisory requirements, inspections and regulatory measures.

THE ANTI-MONEY LAUNDERING FUNCTION

The Anti-Money Laundering function is the Group-level organization responsible for second-level activities connected with preventing and countering money laundering and terrorist financing operations, constantly verifying that control arrangements and information systems are capable of ensuring compliance with the applicable laws and regulations in this area. The Group Anti-Money Laundering function is performed by the Chief AML Officer Area. The head of the Chief AML Officer Area is the Chief AML Officer. The Chief AML Officer is responsible for the definition of guidelines, organizational principles and policies regarding the governance of the risk of money laundering and terrorist financing and oversees their implementation by the relevant organizational units and peripheral structures. The Chief AML Officer is responsible for the Anti-Money Laundering function of Iccrea Banca and has been granted authority for reporting suspicious transactions for Iccrea Banca by the Board of Directors, after consulting the Board of Auditors. Among other duties, it performs the following functions:

- identifies on an ongoing basis the applicable laws and regulations in this field in order to measure and assess their associated impact on the processes, procedures and corporate units involved;
- collaborates with the competent units on the drafting of internal rules and issues guidelines and procedures, support tools as well as planning and reporting standards, establishing the associated deadlines for the receipt of information flows from the individual entities;
- verifies the reliability of the information system for the performance of customer due diligence, data retention and reporting of suspicious transactions;
- coordinates the annual self-assessment exercise for money laundering and terrorist financing risks;
- remotely monitors the activities carried out by the individual affiliated banks and the companies within the direct scope of consolidation, using IT tools and reporting received from the individual entities as well as specific key risk indicators that enable identification of any deficiencies in the control framework and in the risk management methods at the individual entities, and supervision of the evolution of the main risk factors by means of performance statistics at the level of individual entities, territorial area and reference period;
- performs sample checks using a risk-based approach at the peripheral units for anti-money laundering activities carried out on an outsourcing basis on behalf of the affiliated banks, in the light of the results of the remote controls and the analysis of reporting received from the individual entities. This is done in order to verify the degree to which policies, methodologies, criteria, instruments and metrics defined at central level have been incorporated in the arrangements established at those entities;
- recommends organizational and procedural changes to ensure adequate monitoring of money laundering and terrorist financing risks, at the same time verifying their implementation against the action plans prepared in this area. It also provides

recommendations to the boards of directors on the appointment, removal and replacement of the AML officers of the mutual banks, of the Heads of peripheral AML offices and of the Suspicious Transaction Report (STR) delegates at those peripheral offices. For companies included in the direct scope of consolidation, it provides advisory opinions on proposals to appoint or remove STR delegates to the boards of directors of the individual entities;

- identifies anti-money laundering ICT requirements in relation to developments in the regulatory framework and the corporate business, as well as to strengthening the internal framework, in order to ensure the consistency of the anti-money laundering applications in use and the sharing of the Group's information assets;
- ensures compliance with the service level agreements relating to the anti-money laundering services governed in the outsourcing contracts with the affiliated banks;
- formulates opinions regarding proposed new products/services/markets, changes in company processes or related organizational arrangements and advises the various units and top management, including through participation in working groups for the development/revision of internal processes;
- maintains a unified dialogue with the competent supervisory authorities on issues concerning the Group and provides support, where required and/or necessary, in the management of any requests and/or inspections at the individual entity level;
- coordinates, in collaboration with the Human Resources function, the overall Group training system and the processes that govern its operation, planning and implementing training initiatives in the areas for which it is responsible;
- provides unified reporting to the corporate bodies of the Parent Company concerning the management and mitigation of money laundering and terrorist financing risks at the Group level;
- promptly informs the corporate bodies of violations or significant deficiencies uncovered in the performance of its duties.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding 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 Parent Company. 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 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 Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed by Iccrea Banca and adopted by the Group reflects the specific features of the Iccrea Cooperative Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all of the participating banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Cooperative Banking Group is an integral and key part of the overall risk governance arrangements of the Group, as it is closely correlated with the strategic governance and control processes of the ICBG and with the internal stability mechanisms specific to the Group itself. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;
- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the risk governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group.

Risk Appetite Statement (RAS)

The Risk Appetite Statement (RAS) is the instrument through which risk objectives are defined and formalized consistent with the maximum risk that can be assumed, the business model and the strategic guidelines, taking into account the corporate and organizational structure, thus translating the corporate strategy into objectives and qualitative-quantitative limits defined for development and risk management activities.

The RAS therefore has the objective of explicating a forward-looking view of the desired risk profile for each operating and business segment (the so-called Risk Strategy), defining for all corporate and organizational dimensions of the Group the risk propensity objectives (Risk Appetite) with the related tolerance thresholds (Risk Tolerance) within which the operating functions must operate in the pursuit of corporate strategies, in line with the maximum risk that can be assumed (Risk Capacity).

The operational definition of the RAF is applied to the corporate dimensions (Group, subsidiaries, affiliated banks) by defining the indicators and the related threshold levels included in the RAS, taking into account the outcomes of the main risk governance processes of the Group such as: the internal capital adequacy and liquidity assessment process (ICAAP/ILAAP), the treatment of entities identified as material within the group recovery plan (Recovery Plan) and the Early Warning System (EWS). These processes and mechanisms represent the Group's main stability and recovery instruments.

Accordingly, within the overall Risk Appetite framework, the decision-making processes underlying ordinary and extraordinary management actions to be taken if it should prove necessary to reduce the level of risk below the threshold levels specifically set out in the RAS are defined for the various analytical dimensions (Group, subsidiaries, affiliated banks). Given these action plans/rebalancing initiatives, the operating methods for monitoring their effectiveness have also been defined in order to ensure oversight and inform the corporate bodies of the successful outcome of the actions undertaken.

The implementation of the risk strategy underlies the definition of organizational arrangements to verify that exposure to the different risks is consistent with the specified risk appetite. In this perspective, the Group's risk appetite framework, integrated with the Group's governance processes and applied to the various analytical dimensions, is structured in a series of qualitative-quantitative indicators designed to fully monitor the risk profile and the technical situation of the Group as a whole and of the individual companies of which it is composed.

These indicators are based on a comprehensive system of company limits applied to all levels of the corporate organization and can be grouped by nature and purpose.

More specifically, the overall system of indicators that make up the Group Risk Appetite Framework can be represented and classified as:

- risk indicators: qualitative and quantitative indicators attributable to the different risk profiles to which the Group and its components are exposed. These indicators, which are applied at all levels and analytical dimensions, are integrated and form an integral part of the Risk Management Framework (RMF) in order to ensure and support the implementation of corporate strategies in accordance with the principles of stability and prudence;
- performance indicators: qualitative and quantitative indicators attributable to the different analytical dimensions, which are integrated with the other strategic processes of the ICBG (e.g. planning and control, remuneration policies, etc.) in order to preserve the sustainability of the business and performance, including risk-adjusted performance, of the Group and its components. They also enable appropriate oversight and follow-up of development and internal stability strategies (monitoring and follow-up of rebalancing and recovery plans if present);
- early warning indicators: qualitative and quantitative indicators reflecting the external market, idiosyncratic and macroeconomic environment, whose main function is to signal the deterioration of the internal and external operating environment, whose impact can undermine the overall stability of the Group and its individual components in relation to the different risk profiles/operating segments.

Beginning with the RAS, consistent operating limits are specified, the latter being defined within the framework of the overall Risk Governance Policies. These in turn constitute the internal regulatory implementation of the rules for the assumption and management of risks and are an integral part of the risk management process adopted by the Group, ensuring sound and prudent management and supporting the sustainable implementation of the overall risk strategy.

Risk governance policies

The risk governance policies represent the reference model in organizational and process development and in the systematic execution of all the operational and business activities performed by Group companies and are an integral part of the risk management process (RMP) adopted by the Group, ensuring sound and prudent management and supporting sustainable implementation of the overall risk strategy.

The internal control system (ICS) governs the RMP, in general ensuring the completeness, appropriateness, functionality (in terms of effectiveness and efficiency) and reliability of the policies in a context of strict consistency with the Risk Appetite Framework defined at Group level. The structure of the internal control system was designed in accordance with the organizational structure of the Group and, in its operational implementation, takes account of the specific operations and associated risk profiles of each of the Group companies.

The so-called first level of the ICS comprises all operational and business units, with controls integrated within the business processes of those units (e.g. hierarchical, systematic and sample controls) or through dedicated control units reporting to the heads of the operational areas or performed at the back-office level or incorporated in IT procedures.

The corporate control functions operate within the ICS. They are independent and dedicated to ensuring the correct and efficient operation of the system: Internal Audit – third-level controls; Compliance, Anti-Money Laundering (AML), Risk Management – second-level controls.

In this context, the Group develops and implements its business model through a corporate, organizational and operational model that ensures the coordinated use of human resources, technologies and methodologies on the basis of an internal regulatory framework that defines the governance structures of the management and control arrangements, management policies (rules, delegated powers and limits) and processes through which activities are performed. Risk management processes are a component of the Bank's organizational structure, forming part of all operational sectors in which risk is assumed and managed. For each sector, they provide for the identification, assessment (or measurement), monitoring, prevention and mitigation of those risks, also defining the systems (criteria, methods and means) with which those activities are performed.

For each operational and business segment, the practical implementation of the general model represented by the Risk Management Process is set out in the framework of rules defined and developed by the Parent Company (policies, rules, directives, etc.) and within each Group company (rules, policies, procedures, manuals, etc.) and the consequent implementation of infrastructure (organizational, IT, methodological) to support the performance of activities by the organizational units established for that purpose.

The risk limits represent the more detailed configuration of the Risk Appetite Framework, addressing specific aspects connected with the operations associated with the various operational and business segments in which the Group's members operate. These limits are implemented and governed within the corporate risk management policies and processes and are calibrated to ensure consistency with the respective levels of the risk indicators included in the RAS and which affect the same risk profile/operating segment.

At a general level the risk limits are calibrated so as to signal situations in which the operations in progress are not consistent with the guidelines defined by the strategic and operational plans at group level or on an individual basis; as well as reporting situations in which the evolution of the risk profile could compromise the achievement of the target risk levels/risk appetite defined in the SAR or the compliance with the maximum tolerated/permitted exposure levels.

The risk limits are assigned to the individual internal organizational units responsible for assuming risk, called risk taking units, in compliance with the activities for which they are responsible and taking into account the risks to which they are exposed in carrying out their activities and processes. The assignment of clear and unequivocal operating limits determines the responsibility of the individual "risk taking unit" to operate in compliance with the assigned limit. The operational functions of the Bank and of the company involved are called upon to comply with the first line controls in the performance of the activities for which they are responsible and to comply with the internal policies defined on the various risk profiles.

INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESSES (ICAAP AND ILAAP)

The internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) are performed, in accordance with the provisions of the applicable legislation and the requirements of the supervisory authorities, at a consolidated level and at the individual level for the individual affiliated banks of the ICBG, and they represent complex business processes for the Group. Their main objectives are as follows:

- to define an informed and prudent strategy by informing the corporate bodies of the level of risk to which the Group and its individual components are exposed;
- to improve the synergies deriving from the integration of capital management, strategic planning and RAF (Risk Appetite Framework) processes;
- to share and disseminate a corporate culture centered on risk management;

- to develop advanced risk measurement, control and attenuation tools for all company risks;

In the definition of ICAAP and ILAAP at the consolidated and individual levels, Iccrea Banca takes account of:

- the characteristics, size and complexity of the operations of the Group and its individual components and reference markets;
- the provisions of the Cohesion Contract in terms of management and coordination;
- the requirements established by the applicable prudential regulations and banking system practices;
- the time horizon considered in the strategic planning phase in order to assess the adequacy of the Group's capital and liquidity profile from a forward-looking perspective.

In particular, within this context, the Parent Company, pursuant to the provisions of the Cohesion Contract, defines the set of elements that characterize the ICAAP and ILAAP frameworks of the ICBG and its individual members, namely:

- it defines the capital and liquidity adequacy assessment processes (ICAAP and ILAAP) that apply at the Group level and for individual affiliated banks;
- it defines the rules and criteria that the affiliated banks must apply in determining the ICAAP/ILAAP at the individual level, including the definition of stress scenarios, taking due account of the principle of proportionality.

The individual affiliated banks:

- incorporate and implement the rules and criteria defined by the Parent Company regarding ICAAP and ILAAP at the individual level, as well as contributing, within the scope of their responsibilities and with the support of the Parent Company, to analyses and activities instrumental to the assessment of Group capital and liquidity adequacy (consolidated ICAAP and ILAAP).
- in general, the internal capital and liquidity adequacy assessment processes are performed at least annually in a coordinated manner with the activities related to the RAF and Strategic Planning. Instructions and requests for updates, including infra-annually, may be received from both the supervisory authorities and from the corporate bodies/functions in the performance of their respective assessment and control tasks/roles (e.g. the Board of Directors, the Risks Committee, the Board of Auditors, etc.). The activities focus on the following relevant profiles and/or events:
  - changes in the legal or organizational structure, activity or financial situation that may substantially affect the ICAAP/ILAAP;
  - the reasonableness and severity of the stress scenarios used for the assessment of capital and liquidity adequacy;
  - the representativeness of the levels/threshold used for the evaluation;
  - legal and regulatory compliance;
  - extraordinary exogenous or endogenous events that could substantially affect the ICAAP/ILAAP.

From an operational point of view, the execution of the ICAAP and ILAAP is coordinated by the head of the Risk Management function, acting through the central units of the Parent Company and local offices, for the purpose of both ongoing analysis and assessment of adequacy and for the preparation of the annual report to be submitted to the supervisory authorities. The various company units are involved in the ICAAP and ILAAP, each within the scope of its responsibilities, in order to assess the specific operations and related risk exposure of the Parent Company and the individual Group companies.

The ICAAP and ILAAP analyses consider a three-year forecast horizon and the assessments are conducted using a dynamic approach, i.e. including economic and financial developments consistent with the multi-year strategic plan, considered for both normal business conditions and for possible stress events. The stress test system adopted by the Parent Company is consistent with the regulatory provisions and guidelines issued by the supervisory authorities for the ICAAP and ILAAP and is part of the broader stress testing framework (ST Program) defined by Iccrea Banca to support the main risk governance processes.

In accordance with the relevant supervisory guidelines, the overall methodological framework defined for the internal assessment of capital and liquidity adequacy considers three different perspectives, which are defined internally and integrated between themselves. In summary, the analytical perspectives adopted are the following:

- the regulatory perspective, which seeks to verify the ability to comply, over the entire forecast period, with the minimum requirements set out in prudential regulations in both normal business conditions and in adverse conditions;
- the economic perspective, which seeks to assess the capacity of the capital & liquidity adequacy profiles to support unexpected losses and expected and unexpected liquidity needs for all risks that could lead to a deterioration of the current and prospective position of the Group and the individual affiliated banks in the pursuit of the corporate strategy;
- internal rules perspective, which seeks to analyze the capital & liquidity adequacy profiles in relation to all the risks deemed relevant (both Pillar I and Pillar II), while also taking account of any changes in legal, regulatory and accounting rules, through the integration and comparison of regulatory metrics/constraints and internal management assessments.

INTERNAL CRISIS MANAGEMENT PROCESSES – RECOVERY PLAN

The Recovery Framework is integrated into the Group's overall Risk Governance system, which provides for the channeling of specific critical situations at individual entities (affiliated banks in situations of difficulty) into recovery paths (internal remediation/resolution) that can be activated through the EWS process.

Accordingly, given the support provided to the stability of the Group from a "going concern" perspective by dedicated processes such as the EWS and RAF/RAS, the Recovery Framework is activated if such critical situations, due to their intensity or number of the parties involved (the individual dimension), are such as to compromise the resilience of the profiles/indicators at the consolidated level.

In this case, the activation of the Recovery Framework and the associated Group Recovery Plan represents a situation in which the overall instability of the Group (the lack of resilience of the consolidated profiles) is addressed with an overall recovery strategy, under which the internal remedial plans (on an individual basis) to be deployed are accompanied by additional measures defined at the Group level.

At the operational level, the recovery process is initiated centrally by the Parent Company in conjunction with the breach of the threshold levels of the indicators defined at the Group level (breach of a Group recovery trigger).

This assessment process can be broken down into three key moments:

- detection of a breach of the consolidated indicators and analysis of the breach: following detection of the breach of a Group recovery indicator, an in-depth analysis is performed with a dual purpose: i) to identify the underlying causes of the breach; ii) to identify the affiliated banks and/or Group companies within the direct scope of consolidation that gave rise to the breach at the Group level. Assessments with a view to recovery (i.e. the activation of recovery processes) are also performed in the event of detection of breaches of the indicators assigned to Material Legal Entities in accordance with the requirements of the relevant EBA Recommendation.
- analysis of the resilience of internal recovery mechanisms: in order to assess whether the conditions are met for recommending the formal opening of a state of crisis (the prerogative of the Board of Directors of the Parent Company), an in-depth analysis is carried out to obtain a preliminary assessment of whether the breach detected is attributable to events/cases that may represent a temporary breach of the threshold levels and, subsequently, to assess whether the individual "remedial plans/initiatives" activated/to be activated for the banks/companies involved are sufficient to restore overall stability to the Group in a timely manner. If the assessments find that the breach of the threshold levels of the Group Recovery indicators is not temporary, accompanied by a simultaneous finding that the remedial plans would only be partially effective or ineffective, a proposed resolution to open a state of crisis is submitted by the Recovery Committee to the Board of Directors of the Parent Company.
- activation of the Recovery Plan: following the opening of the state of crisis, which involves the activation of the Group Restructuring Plan, ordinary operational practices cease and the initiatives that the Parent Company can take to manage the recovery scenario are identified (i.e. selection of the recovery options included in the short list, responsibilities for execution, execution times, communication plan etc.), to accompany the internal remediation plans activated or to be activated for the banks/companies involved.

INTERNAL STABILITY MECHANISMS – GUARANTEE SCHEME

Under the terms of the Guarantee Scheme, each participating bank assumes, jointly and severally, within the limit of the individual guarantee obligation, the obligations of any other participating bank that fails to discharge its obligations to its creditors (the External Guarantee). The guarantee obligation of each participating bank is commensurate with the respective risk-weighted exposures and is limited to the capital resources the minimum capital requirement of each participating bank (free capital), without prejudice to compliance with those requirements by the affiliated banks.

The Parent Company implements the financial support measures necessary to ensure the solvency and liquidity of the individual participating banks (the Intercompany Support Initiatives) to be applied against the guarantee obligation of each participating bank, up to the limit of free capital. In particular, this is to ensure compliance with the prudential requirements and the requirements of the supervisory authorities as well as to avoid, where necessary, being subject to resolution procedures or compulsory receivership.

In order to ensure that the Parent Company has ready access to the funds and financial resources necessary to perform guarantee interventions, the participating banks undertake to establish Readily Available Funds, represented by a pre-established share held by the Parent Company (the Ex Ante Quota) and a share that can be called up by the Parent Company in case of need (the Ex Post Quota).

The Readily Available Funds- - Ex Ante Quota and Ex Post Quota - are allocated to each participating bank in proportion to the risk-weighted exposures, with a fixed minimum and up to the maximum limit of free capital at the individual level, consistent with the applicable limit on the guarantee obligation.

If one of the participating banks is unable to meet the obligation to establish the Readily Available Funds pursuant to the provisions of the Guarantee Scheme, that obligation will be discharged by the other participating banks that have free capital, to an extent proportional to the free capital remaining after their respective fulfillment of the contribution obligation determined on the basis of risk-weighted exposures. If the guarantee interventions require financial resources that exceed the Readily Available Funds, the Parent Company may request additional contributions from the participating banks to supplement them the funds available.

Intercompany support therefore represents the tool through which the solvency and liquidity of the Parent Company and the individual affiliated banks are ensured.

SECTION 1 – CREDIT RISK

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Cooperative Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual companies and affiliated banks. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the individual entities, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, which is also being implemented in accordance with the principles envisaged in the Cohesion Contract, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Circular No. 285/2013, Part One, Title IV, Chapter 3), Iccrea Banca has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk at the Group level in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion Contract, defines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With particular regard to the lending process, the Parent Company defines guidelines for the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions – and for the performance of management and coordination activities with respect to the affiliated banks. It is also responsible for overseeing credit quality, defining lending policies and verifying their application.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group’s performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be “monitored”, the CLO area monitors the positions of the Parent Company and the companies within the direct scope of consolidation that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the “most relevant” positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of "watchlist" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework, the first operational application of which was launched at the end of the first half of the year for the entire Group, undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

The Group has adopted a framework for determining impairment based on risk assessment models and the corresponding parameters used in operational and management practices by the Parent Company and individual Group entities. In accordance with the provisions of IFRS 9, the methods for measuring expected losses on impaired exposures are based on the following elements:

- a 3-stage (stage allocation) approach, based on changes in credit quality, defined on a model of 12-month expected loss or lifetime expected loss if a significant increase in credit risk is detected. The standard provides for three different categories that reflect the deterioration in credit quality since initial recognition:
  - Stage 1: financial assets originated and/or purchased that do not exhibit objective evidence of impairment at the date of initial recognition or that have not experienced a significant deterioration in their credit quality since the date of initial recognition or which have low credit risk (low credit risk exemption);
  - Stage 2: financial assets whose credit quality has deteriorated significantly since the date of initial recognition;
  - Stage 3: financial assets that exhibit objective evidence of loss at the reporting date. The population of these exposures is consistent with those considered “impaired” under IAS 39.
- application of “point-in-time” formulations of the parameters for measuring credit risk for the purpose of calculating impairment;
- calculation of lifetime expected credit loss for exposures not classified in Stage 1, using lifetime parameters;
- inclusion of forward-looking conditioning in the calculation of ECL, considering the average loss from each scenario and the associated probability-weighted likelihood of each outcome;
- staging and transfers of financial assets between the stages.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following stages:

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption (PD less than 0.30%), or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions:
  - they have a PD greater than the threshold for the low credit risk exemption;
  - they have experienced a significant increase in credit risk with respect to the level measured at the origination date;
  - in the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted. They are governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold of 0.30% at the reporting date;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due or positions under observation (watchlist);

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which regardless of the presence of an origination rating, allocates exposures with a rating that is better or equal to investment grade at the reporting date (BBB-) to stage 1.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the “through-the-cycle” PD into (or calculation of) the “point-in-time” (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal “satellite” models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

In order to make the obtain a forward-looking and lifetime LGD, the macroeconomic multipliers (determined using internally estimated satellite models) are applied for each reference period in the first three years and estimated for the following years as an average of the multipliers for the first three years. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

In order to obtain measures of the risk parameters that reflects future macroeconomic conditions, we use internally estimated “satellite” models differentiated by counterparty type that “explain” the relationship linking the target variable (e.g. historically observed default rates) to a set of “explanatory” macroeconomic variables. The forecasts for the target variable for each of the scenarios adopted, which are obtained by extrapolation using the satellite model on the basis of the expected values of the macroeconomic variables, make it possible to obtain multipliers to be applied to the risk parameters to determine lifetime measures.

2.4 CREDIT RISK MITIGATION TECHNIQUES

As required by Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is strongly committed to compliance with all the requirements for the appropriate application of credit risk mitigation (CRM) techniques in accordance with the standardized approach for the calculation of capital requirements both for internal management and regulatory purposes.

Specific guidelines issued by the Parent Company are currently in force for the Group. They define common rules and principles for the direction, governance and standardized management of risk mitigation techniques, best practices and regulatory requirements in this field.

Specifically, under the current credit policy, the CRM techniques recognized for all capital requirement calculation methods are divided into two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the

assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;

- master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
- on-balance-sheet netting;
- real estate mortgages and property lease transactions involving properties that have the characteristics required by law;

* unfunded credit protection, consisting of:
  - unsecured guarantees;
  - credit derivatives.

Unsecured guarantees eligible for CRM purposes consist of all forms of credit protection provided by the entities (providers) specified in Article 201 of the CRR (central governments, central banks, international organizations, public sector entities, regional governments and local authorities, multilateral development banks, supervised intermediaries). Accordingly, guarantees issued by natural persons or legal entities not included in the list indicated in the legislation do not fall within the risk mitigation techniques for calculating capital requirements, but are not excluded from the Group's catalog of guarantees, which comprises not only the guarantees eligible for CRM purposes, but also guarantees not eligible for CRM purposes, as mentioned above.

Credit risk mitigation techniques may include guarantees provided by collective loan guarantee consortia in accordance with applicable regulations in the presence of suitable counter-guarantees (for example the Central Guarantee Fund for SMEs) for the portion they secure.

The different CRM techniques, whether funded or unfunded, are subject to both general and specific eligibility requirements that must be met at the time the guarantee is established and for the entire duration of the guarantee.

The general requirements, which are intended to ensure legal certainty and the effectiveness of the guarantees, mainly concern:

* the binding nature of the legal commitment between the parties and its enforceability in court;
* the technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending institution shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. The lending institution shall provide, upon request of the competent authority, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet the condition laid down in the first subparagraph" (see Article 194 of the CRR);
* the lending institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement;
* the timeliness with which the guarantee may be liquidated in the event of default;
* the formalization of techniques and operating procedures adequate to ensure continuing compliance over time with the general and specific requirements required for CRM techniques. These procedures must be valid and applied by all Group companies in order to avoid possible inconsistencies in the assessment. Checks shall be carried out in relation to the current legal value of the documentation submitted, the impact of any changes in the regulatory framework and the consequent initiatives to be taken. Risks related to the ineffectiveness, reduction or termination of the protection ("residual risks") as well as valuation and potential concentration risks in respect of specific counterparties shall also be controlled and managed.

Specific requirements are established for the individual CRM techniques in relation to their features and are intended to ensure a high level of effectiveness of the credit protection.

3. IMPAIRED CREDIT EXPOSURES

3.1 MANAGEMENT STRATEGIES AND POLICIES

The Iccrea Group's strategies for managing impaired credit exposures are an integral part of the Group's overall long-term Strategic Plan. The objectives for managing NPLs are incorporated in an Operational Plan, consisting of all the activities that the Group undertakes to effectively implement the Strategic Plan in a manner consistent with applicable regulations and regulatory policy.

The Parent Company, in exercising its management and control function envisaged in the Cohesion Contract, defines the operational planning of the objectives to be achieved for the NPE portfolio at the Group level, which makes it possible to monitor the ongoing effectiveness of its strategies and to identify appropriate corrective measures in the event of deviations from targets.

The Iccrea Banca has implemented appropriate governance and operational structures to enable the performance of its management and control activities and the efficient and sustainable management of impaired loans at the Group level.

More specifically:

- the analysis, recovery and restructuring of non-performing exposures is structured around units that are separate from the units responsible for origination and those that monitor performing positions. In cases where the establishment of an organizational unit is not possible, internal controls have been established to ensure adequate mitigation of potential conflicts of interest. As a corollary to the foregoing, the decision-making bodies of the units involved in managing non-performing exposures do not have decision-making authority for performing positions, while those of the units responsible for managing performing positions do not have authority to make decisions concerning non-performing positions;
- criteria for allocating exposures have been specified. They are used to trigger a change in responsibility for/ownership of exposures at the level of the units specialized in managing impaired exposures, in compliance with the principle of assigning a position to a single manager;
- the system also provides for activities, including self-assessment, to assess the suitability, in both quantitative and qualitative terms, of the structures and resources deployed to manage impaired financial assets.

The reduction in the impaired exposures at the Group level envisaged in the long-term plan will be accomplished with the implementation of a series of strategies, namely:

- maintaining positions on the balance sheet in the short term, to be applied to positions in reversible financial difficulty that are expected to return to performing status with short-term measures;
- maintaining positions on the balance sheet in the long term, to be applied to positions in a more advanced, albeit reversible, state of financial difficulty that are expected to return to performing status with long-term measures, including the debt restructuring measures provided for by law;
- legal action, to be applied to severely impaired positions for which legal action is taken to recover the claim, as the state of crisis appears deeply rooted and irreversible;
- active portfolio reduction, to be applied to impaired positions that are not considered recoverable. They are slated for disposal as the state of crisis appears to be deeply rooted and irreversible and the sale of the positions can also contribute to reducing the operating costs of managing NPLs.

In summary, the main actions undertaken by Iccrea Banca at the Group level are as follows:

- attempts at amicable recovery of loans and assets in the case of lease transactions;
- restructuring of exposures, using the options available under bankruptcy law where appropriate. This activity is based on an analysis of the credibility and repayment capacity of the counterparty, as well as the overall sustainability of the plans. The Group's policies are aimed at taking early action to restructure loans as the positive effects of curing on exposures are all the more effective the earlier they are implemented. In this regard, the instruments for monitoring counterparties have been strengthened in order to detect the initial signs of deterioration and promptly guide subsequent action;
- settlements, predominantly on an out-of-court basis;
- legal and out-of-court recovery of loans and assets, with a focus on remarketing leased assets;
- disposal of non-strategic NPE portfolios, making significant use of GACS state Guarantee Scheme. In addition to the sale of portfolios, the strategies also provide for one-to-one transfers where the terms offered are attractive, taking account of prices prevailing in market transactions.

The actions to be pursued are selected following an assessment of the cost-effectiveness of the measures and is reflected in a clustering of customers/transactions structured so as to guide operations effectively and facilitate the monitoring of the activities performed.

3.2 WRITEOFFS

Writeoff means the derecognition from the bank's financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "objective" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";

- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- notification by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as “forbearance” can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication “Guidance to banks on non-performing loans”, the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
  - short-term measures are truly applied temporarily and the bank has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;
  - the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if these regard separate contracts if the loan was refinanced in a previous forbearance solution).
- a forbearance solution including long-term forbearance measures should only be considered viable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower’s balance in the medium to long term is expected;
  - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Performing past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	67,215	980	41	816	49,319,505	49,388,556
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	875,672	875,672
3. Financial assets designated as at fair value	-	-	-	-	404,306	404,306
4. Other financial assets mandatorily measured at fair value	-	-	-	-	33,282	33,282
5. Financial assets held for sale	-	-	-	-	555	555
Total 30/6/2020	**67,215**	**980**	**41**	**816**	**50,633,320**	**50,702,371**
Total 31/12/2019	**74,343**	**1,226**	**-**	**453**	**43,198,048**	**43,274,070**

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

	Impaired				Performing			
	Gross exposure	Total writedowns	Net exposure	Total partial writeoffs *	Gross exposure	Total writedowns	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	135,681	67,446	68,235	373	49,337,335	17,014	49,320,321	49,388,556
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	878,085	2,413	875,672	875,672
3. Financial assets designated as at fair value	-	-	-	-	X	X	404,306	404,306
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	33,282	33,282
5. Financial assets held for sale	-	-	-	-	566	12	555	555
Total 30/6/2020	**135,681**	**67,446**	**68,235**	**373**	**50,215,987**	**19,439**	**50,634,136**	**50,702,371**
Total 31/12/2019	**142,601**	**67,032**	**75,569**	**373**	**42,794,591**	**8,724**	**43,198,501**	**43,274,070**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	603,983
2. Hedging derivatives	-	-	11,940
Total 30/6/2020	**-**	**-**	**615,923**
Total 31/12/2019	**-**	**-**	**394,318**

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

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	34,294,379	6,411	34,287,968	-
- of which: forborne exposures	X	-	-	-	-
Total A	**-**	**34,294,379**	**6,411**	**34,287,968**	**-**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	5,311,077	67	5,311,010	-
Total B	**-**	**5,311,077**	**67**	**5,311,010**	**-**
Total A+B	**-**	**39,605,456**	**6,479**	**39,598,977**	**-**

* *Values to be reported for information purposes*

A.1.7 ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

Tipologie esposizioni/valori	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	134,090	X	66,875	67,215	373
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	1,550	X	571	980	-
- of which: forborne exposures	1,077	X	527	549	-
c) Impaired past due exposures	41	X	-	41	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	829	13	816	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	16,371,816	13,015	16,358,801	-
- of which: forborne exposures	X	4,809	97	4,711	-
Total A	**135,681**	**16,372,645**	**80,474**	**16,427,852**	**373**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	2,938,864	14	2,938,850	-
Total B	**-**	**2,938,864**	**14**	**2,938,850**	**-**
Total A+B	**135,681**	**19,311,509**	**80,488**	**19,366,702**	**373**

* *Values to be reported for information purposes*

SECTION 2 MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an "other" business model, namely "held for sale", i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines market risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of market risks.

RISK MANAGEMENT PROCESSES

Identification of risks

Operations in financial market, especially positions in the trading book, expose the Bank to market risks and other subcategories of risk. The identification of risks is mainly carried out in the process of specifying and updating risk models and metrics for market risks, and involves the following activities:

- the specification and updating of risk metrics, i.e. the evolution by the Risk Management department of measurement and monitoring methods on the basis of developments in markets, regulations and best practice;
- the approval process, conducted before the start of operations in a new financial instrument and the associated definition of the procedures for measuring fair value and risks.

Risk measurement and assessment

Risk Management is the main actor in the processes for development and using measurement models and metrics for market risk.

Updates of the models and metrics are identified by Risk Management in the performance of its duties, including analysis of regulatory requirements, market best practices and input from the business units involved (Finance in particular).

Iccrea Banca uses the standardized approach for the purpose of calculating capital requirements for market risks, in accordance with the applicable supervisory regulations.

The measurement activities performed by the Risk Management unit involve:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;

- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
  - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

n approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

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

Deterministic metrics

Sensitivity and Greeks of options

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

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega (sensitivity to inflation): a change of 1 percentage point in implied volatilities on forward inflation rates;

- CS01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

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

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

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. 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;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In this area, Risk Management is responsible for preparing periodic reporting on the various risk factors, providing appropriate disclosure to the operating lines, senior management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

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

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

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

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

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

With regard to market risks on the trading book of the Parent Company, Iccrea Banca, at June 30, 2020 the VaR was equal to €0.37 million, below the overall risk limit for that specific category of operations, which was €2 million for the head of Finance.

The following table reports sensitivities by risk factor to which the trading book is exposed:

Risk factor	Sensitivity value (in €)	Note
Interest rates	8,908	Sensitivity calculated in relation to 1 bp change
Inflation rates	(8)	
Credit spreads	30,326	
Equity	14,731	Sensitivity calculated in relation to 1% change in share/equity index

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for under the Cohesion Contract, the Parent Company defines interest rate risk management policies, in accordance with the strategic planning and definition of the RAF.

This role is performed through the issue of specific policies and directives and the definition and application of specific governance mechanisms that govern the various stages (definition, approval, monitoring and reporting) that characterize the management of interest rate risk on the banking book.

RISK MANAGEMENT PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: repricing risk, yield curve risk, basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- current earnings approach: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;
- NII sensitivity: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a “full revaluation” method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a “base” scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- Duration gap: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- EVE sensitivity: the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Group may be exposed. Each can be associated with internally developed or regulatory scenarios.

- repricing risk: in order to monitor this risk category, parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- yield curve risk: in order to monitor this risk category, non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged by the reference guidelines, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Group banking book and the subsequent:
  - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
  - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels, as well as at the level of the individual business lines responsible for managing interest rate risk on the banking book.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;

- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally by the Group.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The identification of risk categories is a starting point and a linkage among the main strategic processes to manage risk management (Risk Appetite Framework, Internal Capital Equity Assessment Process, Contingency & Recovery Plan) and is aimed at limiting the set of risk factors/parameters for which stress scenarios are developed.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

QUANTITATIVE DISCLOSURES

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

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

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

The interest rate risk on the banking book used for management purposes with regard to sensitivity indicators for economic value and net interest income at June 30, 2020 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 10	- 146
Impact on net interest income	+ 53	- 103

2.3 EXCHANGE RATE RISK

QUALITATIVE DISCLOSURES

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

The exchange rate risk management strategy (the FX risk factor) is based on the analysis of market developments and the different currencies in which operations are denominated. The strategy is differentiated in accordance with the type of operations:

- for major currencies (hard currencies), operators, based on the analysis of economic, macroeconomic and money management data, manage operations both to optimize existing positions and generate a profit;
- for minor currencies (local currencies), exchange rate risk is managed with a view to the total minimization of risks, except in unusual macroeconomic situations, by reducing exposures exceeding the thresholds defined with market operations of the opposite sign.

Trading is carried out on the foreign exchange and foreign exchange derivatives markets both through spot trading and through the management of short/medium-term forward positions (outright operations). The strategy of the desk is therefore aimed at intraday/multiday transactions in order to generate profit from movements in the spot foreign exchange market. Forex swaps are used to engage in forward operations, based on expectations for interest rates and exchange rates, so as to generate a profit from maintaining open short/medium-term positions in foreign currency. Based on its own analyzes, the desk also seeks to improve its profitability by taking positions in options on exchange rates.

All operations are based on techniques and methods defined and agreed at the desk level, based on operating limits assigned to the managers and operational staff that are consistent with the provisions of the risk policies.

B. HEDGING EXCHANGE RATE RISK

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 DERIVATIVES AND HEDGING POLICIES

3.2 HEDGE ACCOUNTING

QUALITATIVE DISCLOSURES

For the purposes of hedge accounting, Iccrea Banca, Parent Company of the ICBG, applies the provisions contained in IAS 39 since at the time of initial application of IFRS 9 it elected the option provided for in paragraph 7.2.21 of that standard to continue to apply in full the rules of IAS 39 for all types of hedging (micro and macro).

The hedge contracts are transacted on the basis of the provisions of specific company policies and mainly used to manage interest rate risk on the banking book arising from the normal business operations of the individual banks and the Parent Company, pursuing the objective of reducing the risk profile within the limits of the Risk Appetite Framework as defined and quantified by the competent bodies. These limits concern the exposure of the Bank both in terms of net interest income sensitivity and economic value sensitivity.

The life cycle of a hedge accounting relationship starts with the so-called “designation” phase. With the designation of the hedging relationship, the company declares the methods and the instruments through which it intends to implement the hedging strategy, as defined by the manager of the risk being hedged, as well as the methods of measuring the effectiveness of the hedge. This phase is the responsibility of the manager of the risk being hedged, who draws on the technical functions involved in the hedge accounting process defined in the associated policy.

Once a hedging relationship has been designated, it must be demonstrated that the hedge is highly effective in offsetting fair value changes or stabilizing the cash flows attributable to the hedged risk during the period for which the hedge is designated.

The effectiveness of the hedge is demonstrated at the inception date and measured at the periodic reporting dates (March 31, June 30, September 30 and December 31), as well as on a monthly basis for internal transaction monitoring purposes.

The effectiveness of the hedge is measured by conducting so-called effectiveness tests (prospective and retrospective) based on both qualitative and quantitative methods, complying with the criterion of continuity. A hedging relationship is considered effective if at each measurement date both tests (prospective and retrospective) are passed. The failure of the effectiveness test(s) should result in the discontinuance of the hedging relationship, i.e. the termination of hedge accounting.

A. FAIR VALUE HEDGING

Fair value hedging is used to immunize changes in the fair value, attributable to the different risk factors, of assets and liabilities or portions of them, of groups of assets/liabilities, of irrevocable commitments and portfolios of financial assets and liabilities.

Iccrea Banca adopts both specific hedges (micro fair value hedges) and generic hedges (macro fair value hedges). These hedges therefore apply both to well-identified financial instruments (government securities – both fixed rate and indexed to European and Italian inflation – deposits, bond issues, loans and other financing) and to portfolios of fixed-rate financial instruments (securities holdings).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings, bonds issued and one hedge of a loan granted to a subsidiary, while macro hedging is applied to a portfolio of corporate securities.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), asset and yield swaps (ASW), overnight index swaps (OIS) and options on interest rates entered into with third parties. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

Iccrea Banca adopts specific hedges (micro cash flow hedges) mainly to transform fixed-rate funding denominated in foreign currency (specifically, US dollars) into fixed-rate funding in euros. The stabilization intent is substantiated by establishing the funding conditions with regard to both the level of exchange rates and the synthetic flow of interest payments obtained through the hedge.

The derivatives used are interest rate swaps (IRS) not listed on regulated markets, transacted with third party counterparties on OTC markets.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the period under review, there were no hedges of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods (“cumulative scenario method” or “linear regression method with curve simulation”);
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Bank does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

Hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, corporate securities, bond issues and a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and OISs as hedging instruments. Where present, interest rate and inflation risk are hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

Iccrea Banca currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. The effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

Iccrea Banca has designated a micro fair value hedge of a fixed-rate loan to a company within the direct scope of consolidation, mainly using IRSs and OISs as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

As provided for in the Cohesion Contract, the Parent Company defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

In exercising this role, the Parent Company determines the governance model and mechanisms that govern the various stages involved in the management of liquidity and oversight of the associated risks, as well as interactions between business and control units in order to ensure an appropriate level of liquidity at the consolidated and individual levels at the intraday, short and medium/long-term time horizons.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored at the consolidated and individual levels using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity*:* monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Group's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the Group's liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder, in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and "time-specific" obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, i.e. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels at medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

- The first approach identifies cash flows based on the contractual maturities of the items considered;
- The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (EWS, RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Second-level controls, which are performed by Risk Management, are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms, in collaboration with the management functions, should the specified limits be exceeded. Control activities is based on the assessment and measurement of the positioning of the risk indicators established by the Risk Governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the established risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The Group's liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group's business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;

- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the "near-default" scenarios to be taken in adverse situations in order to limit the Group's exposure to liquidity risk;
- verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISKS

Operational risk means the risk of losses caused by the inadequacy or malfunction of procedures, human resources and internal systems or the occurrence of external events. For example, such losses include those caused by fraud, human error, operational interruptions, system unavailability, breach of contract and natural disasters.

The various types of operational risk to which the Bank is structurally exposed therefore include IT risk and reputational risk. This is associated with the banking activities carried out with the public and financial and institutional counterparties, as well as the numerous national and international regulations to which the Bank is subject.

The organizational model adopted by the Bank within the Group to manage and monitor operational risks is structured into two levels:

- at the Parent Company, the Operational & IT Risk Management unit has been established, reporting to Group Risk Management within the CRO area, which is responsible for operational and IT risks and is charged with:
  - responsibility for policy-making and coordinating risk management activities for the Iccrea Cooperative Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The methodological aspects underlying the management framework and the related methods of application to the Group companies were formalized and approved at the end of 2019 as part of specific Group policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment and IT Risk Self-Assessment) which are currently being adopted by all Group companies.

This framework has been developed in accordance with the typical phases of the operational risk management process, namely:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational and IT risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational and IT risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The loss data collection process has currently been adopted by all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope and are continuing in 2020 with regard to application of the process to the affiliated banks. IT risk management activities included the completion, in March 2020, of the annual information risk profile assessment, which involved Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In the first half of 2020, the development of the related application system continued. With specific reference to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile of Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In addition, the first half of 2020 also saw the continuation of the informational and training effort for the Operational & IT Risk Management framework, in step with the evolution of the management framework and the release of applications, with specific attention being paid to operating approaches and support applications.

The Risk Management function also supported the collection of operational loss events at the Group level for QIS and COREP regulatory reporting purposes.

With regard to the monitoring activities of the Incident Management Process, significant incidents were monitored continuously, from the time of their occurrence until closure of the incident, with the performance of assessment activities in the event of incidents with specific characteristics or for which particular risk factors were identified. Specific periodic reporting is prepared for these activities.

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach. Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of the Bank is “gross income”. In particular, the Bank’s capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the previous year (December 31, 2019), amounted to €47,818 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2019	T	382,036
- at December 31, 2018	T-1	338,964
- at December 31, 2017	T-2	235,360
Relevant indicator average		**318,787**
Regulatory coefficient		**15%**
Capital requirement		**47,818**

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

	30/6/2020	31/12/2019
1. Share capital	1,401,045	1,401,045
2. Share premium reserve	6,081	6,081
3. Reserves	252,522	379,939
- earnings	252,522	379,939
a) legal	50,785	50,785
b) established in bylaws	205	205
c) treasury shares	4,608	4,608
d) other	196,925	324,341
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	(4,608)	(4,608)
6. Valuation reserves:	45,330	49,448
- Equity securities designated as at fair value through other comprehensive income	(5,689)	(651)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets measured at fair value through other comprehensive income	866	211
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	582	311
- Hedging instruments [undesignated elements]	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale	-	-
- Financial liabilities designated as at fair value through profit or loss (change in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit plans	(2,491)	(2,485)
- Share of valuation reserves of equity investments accounted for using equity method	-	-
- Special revaluation laws	52,062	52,062
7. Net profit (loss) for the period	(6,207)	(127,417)
Total	**1,694,164**	**1,704,489**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 30/6/2020		Total 31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,387	(1,521)	799	(588)
2. Equity securities	809	(6,498)	2,001	(2,652)
3. Loans	-	-	-	-
Total	**3,196**	**(8,019)**	**2,800**	**(3,240)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G
Business combinations

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

PART H
Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the first half of 2020 to key management personnel as required by IAS 24. Key management personnel are managers who have the power and responsibility, directly or indirectly, for the planning, management and control of the Bank's activities, including the directors and members of the supervisory bodies.

	Total 30/6/2020				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	4,501	172	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the reporting entity:

a) a person or close family member of that person is related to an reporting entity if that person:

   i. has control or joint control of the reporting entity;

   ii. has a significant influence over the reporting entity;

   iii. or is one of the key management personnel of the reporting entity or one of its parent companies.

b) an entity is related to a reporting entity if any of the following conditions apply:

   i. the entity and the reporting entity are part of the same group (which means that each parent, subsidiary and group company is related to the others);

   ii. an entity is an associated or joint venture of the other entity (or an associate or joint venture belonging to the group to which the other entity belongs);

   iii. both entities are joint ventures of the same third party;

   iv. an entity is a joint venture of a third-party entity and the other entity is an associate of the third-party entity;

   v. the entity is represented by a post-employment benefit plan for the employees of the reporting entity or an entity related to it. If the reporting entity is itself a plan of this type, the employers who sponsor it are also related to the reporting entity;

   vi. the entity is controlled or jointly controlled by a person identified in point (a);

   vii. a person identified in point (a)(i) has a significant influence over the entity or is one of the key management personnel of the entity (or its parent);

   viii. the entity, or any member of a group to which it belongs, provides management services with strategic responsibilities to the reporting entity or to the parent company of the reporting entity.

In December 2011, the Bank of Italy issued the rules governing related party transactions contained in Circular 263/2006, with which it sought to strengthen the arrangements for managing the risk that the proximity of certain persons to a bank's decision-makers could compromise the impartiality and objectivity of decisions concerning the granting of loans and other transactions with them, with possible distortions of the resource allocation process, the exposure of the bank to risks that are not adequately measured or monitored, and potential losses for depositors and shareholders.

Iccrea Banca has adopted a document governing the principles and rules applicable to related party transactions in compliance with regulations of the supervisory authorities.

In compliance with supervisory regulations, all transactions carried out by the Bank with its related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent counterparties. No unusual or atypical transactions were carried out with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes the financial effects of transactions with the related parties of the Bank.

	30/6/2020			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	30,638,075	92,225	-	193
Total other assets	100,992	-	-	-
Financial liabilities	13,077,722	18,634	-	-
Total other liabilities	84,444	-	5	7
Commitments and financial guarantees issued	5,054,767	1,000	-	-
Commitments and financial guarantees received	-	-	-	-
Provisions for doubtful accounts	-	-	-	-

	at 30/6/2020			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	45,796	1	-	-
Interest expense	(60,942)	-	-	-
Dividends	36,741	-	-	-
Fee and commission income	20,975	147	-	-
Fee and commission expense	(5,838)	-	-	-
Other operating expenses/income	19,577	-	-	-
Net gain (loss) on trading activities	115,731	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Writedowns/writebacks of impaired financial assets	-	-	-	-

PART I
Share-based payments

Iccrea Banca S.p.A has no payment agreements based on its own equity instruments in place.

PART L
Operating segments

Iccrea Banca S.p.A, Parent Company of the Iccrea Cooperative Banking Group, has elected the option available under IFRS 8 to prepare its segment reporting in Part L of the notes to the consolidated interim financial statements.

PART M
Lease disclosures

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

Iccrea Banca's leases essentially regard property and car leases.

At June 30, 2020, the Bank held 208 leases, of which 33 relating to property leases, and 175 relating to cars for total right-of-use assets of €2,993 thousand.

The properties are mostly used for banking and general management activities. Based on historical experience, the Bank includes the first lease extension in computing the lease term, in addition to the non-cancellable period, if renewal depends exclusively on the lessee. Therefore, both at the date of FTA and upon initial recognition of a contract under IFRS 16, the first reasonably certain lease extension has been considered, unless there is effective evidence of relevant facts and circumstances that would counsel a different assessment. Therefore, in the case of a lease for property with a term of 6 years and a tacit renewal option at the end of the first six-year period, the term considered in determining the useful life of the right of use is 12 years, unless there are facts or circumstances that suggest a different assessment.

Car leases regard contracts for cars assigned to employees for business use. These contracts usually come in the form of "long-term rentals", and are therefore have a multi-year term and usually do not include a final purchase option.

No sale and lease back transactions were carried out during the period.

As already indicated in the accounting policies, the Group has elected to exercise the exemptions permitted by IFRS 16 for short-term leases (term of less than or equal to 12 months) and low-value leases (where the value of the asset is less than or equal to €5,000).

QUANTITATIVE DISCLOSURES

Part B of the notes to the financial statements reports right-of-use assets acquired with leases in the amount of €2,993 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost), with leases liabilities of €3,028 thousand (Table 1.2 - Financial liabilities measured at amortized cost: composition of amounts due to customers).

In Part C Income statement reports interest in respect of lease liabilities of about €35 thousand (Table 1.3 Interest and similar expense, Financial liabilities measured at amortized cost: amounts due to customers)

The following table breaks down depreciation charges (reported in Table 12.1 on the income statement) for right-of-use assets into the various categories.

The right of use relating to leased assets (rental of properties and cars) has been recognized under the sub-item "Assets acquired under finance leases" as required by IFRS 16.

	Property	Automobiles	Total
a) Initial value	1,288	1,163	2,451
b) Depreciation	(310)	(432)	(742)
c) Purchases	224	1,060	1,284
Total 30/06/2020	**1,202**	**1,791**	**2993**
Total 31/12/2019	**1,288**	**1,204**	**2,492**

The decrease compared with the previous period (-€41 thousand) is attributable to two automobile leases of the ICT sector, which were reclassified under "Non-current assets or disposal groups held for sale".

SECTION 2 – LESSOR

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

ATTACHMENTS
Accounts of the Guarantee Scheme

INTRODUCTION

Under the provisions of the Guarantee Scheme, which is governed by legislation and the Cohesion Contract, each bank participating in the Iccrea Cooperative Banking Group (ICBG) pays in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory capital requirements at the individual level - in order to enable the Parent Company to undertake financial support interventions necessary to ensure the solvency and liquidity of the individual affiliated banks.

In order to ensure the Parent Company has immediately available resources to carry out guarantee operations, in April 2019 the affiliated banks established the readily available funds (RAFs), represented by a share paid ex ante to the Parent Company (the Ex Ante Quota) and a share that can be called up by the Parent Company in case of need (the Ex Post Quota), with the payment of contributions in the technical forms provided for in the Cohesion Contract.

The Cohesion Contract provides for the ICBG to conduct stress tests each year of the participating banks to quantify their potential capital requirements in an adverse scenario and, consequently, verify the necessary volume of Group funds. For 2020, the calculation of the RAFs showed a potential capital requirement of €1,182.57 million, broken down as follows:

- an Ex Ante Quota of €385.36 million (€318.36 million pertaining to the affiliated banks and €67 million to the Parent Company), compared with the €505 million estimated for 2019;
- an Ex Post Quota of €797.21 million (€658.56 million pertaining to the affiliated banks and €138.65 million to the Parent Company), compared with the €835 million estimated for 2019.

Each bank and the Parent Company adjusted its Ex Ante and Ex Post Quota for 2020 up or down as appropriate. More specifically, the annual updating of the Ex Ante Quota, which was completed in January this year, was performed for the mutual banks through the adjustment of the loan for a specific transaction pursuant to Article 2447 bis, letter b) and Article 2447-decies of the Italian Civil Code.

The Parent Company invests the Ex Ante funds in liquid and enforceable assets in compliance with the limits and requirements set out in the Investment Policy.

In 2019, the Parent Company also undertook two capital support interventions in the total nominal amount of €23 million with the exclusive use of the Ex-Ante Quota of the RAFs, as follows:

- the first intervention was carried out in order to give Banca Centropadana the capital necessary to support restructuring costs, with the subscription by the Guarantee Scheme of two subordinated Tier 2 bonds issued by the bank in the total nominal amount of €15 million;
- the second intervention was carried out in order to rebalance the financial position of Vival Banca, with the subscription by the Guarantee Scheme of a subordinated Tier 2 bond in the nominal amount of €8 million.

The capitalization interventions were attributed on a pro-rated basis to each mutual bank, in accordance with the "Accounting and prudential model for the Cross-Guarantee Scheme". The share of each affiliated bank in the intervention was:

- recognized in the accounts as indirect financing in a subordinated debt instrument included in own funds by the issuer;
- deduced, for prudential purposes, from the component of own funds of each participating bank consistent with the type of intervention carried out at the beneficiary bank.

Value of the transaction

On a quarterly basis, the Parent Company determines the fair value of the transaction as a result of the overall performance of the resources invested and deployed and periodically notifies the individual mutual banks of the value of their contribution to the specific transaction, equal to the pro-rated share of the total.

Pursuant to Article 4.1 of the Loan Agreement, the revenues of the transaction consist of the investment yields[31] and the returns deriving from the implementation of the interventions. Costs are made up of management costs and possible losses deriving from the transaction and investments.

Pursuant to Article 12 of the Loan Agreement, the Parent Company pays the affiliated banks remuneration related to developments in the transaction and investment activities on the basis of the adjustments to the fair value of the loan and the accounting effects of the interventions undertaken by the Parent Company.

The following table provides a breakdown of the fair value notified on a quarterly basis to the participating banks in the first half of 2020 and the associated changes with respect to the fair value of the transaction as at January 1, 2020 (in concomitance with the adjustment of the Ex Ante Quota of the participating banks):

[31] See Article 5 of the Loan Agreement.

Reference date (euros)	Fair Value	Change in fair value since start of 2020[32]
01/01/2020	408,363,919	-
31/03/2020	406,450,614	(1,913,305)
30/06/2020	407,975,588[33]	(388,331)

The quarterly change in the fair value of the transaction was attributed on a pro-rated basis to each affiliated bank and the Parent Company on the basis of their participation in the Ex Ante quota of the Guarantee Scheme in accordance with the model used by the Parent Company for the managing the separate accounts of the loan.

The following table shows all the components that determined the change in the overall fair value of the investments at June 30, 2020compared with the amount paid by the affiliated mutual banks and the Parent Company at the time of the adjustment of the transaction value for 2020 (recognized as at January 1, 2020):

(euros)	30/06/2020
Interest income on securities	1,553,902
Interest expense	(105,859)
Fee and commission expense	(18,400)
Gain/loss on securities at fair value[34]	1,199
Plus/minus on securities at fair value [35]	(1,819,172)
Overall performance of GS	**(388,331)**

See the following section for a breakdown of the individual items.

Accounting policies

The rules governing the loan for a specific transaction require the adoption of dedicated/separate accounts that ensure the segregation and the separation of income and all other amounts generated by the investment of the liquidity of the loan from the resources of the Parent Company and the companies of the Group.

The model used by the Parent Company to manage the separate accounts of the loan provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected to the management of the funds to be offset in profit or loss by an item of the opposite sign in order to provide the providers of the financing with the net proceeds of the overall management of the funds during the period in question.

[32] With a reference date of 31/03/2020 the notice was transmitted to the affiliated banks on April 15, 2020 with Guidance and Coordination Notice Prot. ICR-OUT- 000354-2020-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2020".

With a reference date of 30/06/2020 the notice was transmitted to the affiliated banks on July 15, 2020 with Guidance and Coordination Notice Prot. ICR-OUT- 001042-2020-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2020".

[33] The accounting difference of -€35 compared with the fair value notified to the mutual banks in the second quarter of 2020 is attributable to amounts not yet reclassified at the time of recognition.

[34] The item reports gains actually realized on securities.

[35] The item reports the increase recognized on the basis of the application of the valuation model.

Balance sheet - Assets

Assets (euros)	30/06/2020	31/12/2019
Cash and cash equivalents	1,535,870	110,477,252
Financial assets measured at fair value through profit or loss	404,306,198	385,110,727
b) financial assets designated as at fair value	*404,306,198*	*385,110,727*
Financial assets measured at amortized cost	2,133,555	14,334,195
a) due from banks	*2,133,555*	*14,334,195*
Total assets	**407,975,623**	**509,922,174**

Cash and cash equivalents

The amounts regard resources not invested in securities and held on the PM account of the Guarantee Scheme at the Bank of Italy.

Financial assets measured at fair value

Assets measured at fair value regard financial instruments subscribed by the Parent Company:

- in accordance with the Investment Policy for the Ex Ante Share of the RAFs;
- for intercompany capital support operations, pursuant to Article 6.1 of the Cohesion Contract, in favor of Banca Centropadana and Vival Banca in December last year.

The following table provides a breakdown by issuer country and/or type of instrument of the debt securities that make up the portfolio, measured at fair value in compliance with the applicable accounting rules:

Country (euros)	Value at 30/06/2020	Value at 31/12/2019
Austria	1,156,539	1,143,411
Belgium	10,959,505	10,938,206
Finland	1,393,130	1,377,314
France	45,466,213	45,560,955
Germany	36,571,405	36,214,142
Ireland	7,999,338	8,014,450
Italy	107,544,221	109,578,169
Netherlands	2,330,274	2,304,298
Supranational	35,567,215	35,548,138
Spain	102,867,977	79,824,417
Covered bonds	31,566,278	31,587,856
Subordinated bonds subscribed as part of interventions:	20,884,103	23,019,372
- Centropadana	*13,374,263*	*15,018,443*
- Vival Banca	*7,509,840*	*8,000,929*
Total	**404,306,198**	**385,110,728**

Financial assets measured at amortized cost – due from banks

The item includes cash and cash equivalents held on an account with Euroclear Bank SA.

Balance sheet - Liabilities

Liabilities (euros)	30/06/2020	31/12/2019
30. Financial liabilities designated as at fair value	337,104,417	424,058,244
80. Other liabilities	70,871,206	85,863,930
Total liabilities	**407,975,623**	**509,922,174**

Financial liabilities designated as at fair value

The item includes the Ex Ante Quota of the mutual banks (€318.36 million), adjusted to account for the performance of the dedicated loan at June 30, 2020, and the fair value of the indirect financing in the form of subordinated debt instruments issued by Banca Centropadana and Vival Banca (a total of €19.07 million) pertaining to the affiliated banks. The decrease (€0.327 million) mainly reflects the change in the fair value of the financial instruments held.

Other liabilities

Other liabilities mainly regard the Ex Ante Quota pertaining to the Parent Company (€67 million), adjusted to account for the performance of the dedicated loan at June 30, 2020, and the indirect financing in the form of subordinated debt instruments issued by Banca Centropadana and Vival Banca (a total of €3.93 million) pertaining to the Parent Bank. The decrease (€0.061 million) mainly reflects the change in the fair value of the financial instruments held.

Income statement

(euros)	30/06/2020	30/06/2019
10. Interest and similar income	1,553,902	713,083
20. Interest and similar expense	(105,859)	(38,176)
30. Net interest income	**1,448,043**	**674,907**
50. Fee and commission expense	(18,400)	(14,023)
60. Net fee and commission income (expense)	**(18,400)**	**(14,023)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(1,817,974)	4,118,250
of which gain/loss on debt securities	*1,199*	-
of which minus/plus on debt securities	*(1,819,172)*	*4,118,250*
Performance of GS	**(388,331)**	**4,779,134**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss of which portion allocated to affiliated banks	326,905[36]	(3,974,394)
210. Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company	61,425[37]	(804,740)
300. Net profit (loss) for the period	-	-

The model provides for all the income components affecting the Iccrea Banca financial statements in relation to the management of the funds connected with the transaction, whether they derive from valuation or from income and charges connected with the management of the funds, to be offset through the recognition of an item of the opposite sign that allocates to the lenders the performance achieved on managing the loan funds during the relevant period. This is the reason the profit/loss for the period is zero.

[36] In Iccrea's income statement, item 110.a. Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss is reported net of the share re-allocated to the affiliated banks (equal to -€326,905). The item beaks down as follows:

110.a	**Net gain (loss) on financial assets and liabilities designated as at fair value**	**(1,491,069)**
	– of which: financial assets and liabilities designated as at fair value	(1,817,974)
	▪ *of which gain/loss on debt securities*	1,199
	▪ *of which minus/plus on debt securities*	(1,819,172)
	– of which: change in value of financial liabilities designated as at fair value *(share attributed to mutual banks)*	326,905

[37] In the income statement, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 210. Other operating expenses/income.

Interest and similar income

Interest income (€1.55 million) includes interest accrued on financial instruments held.

Interest and similar expense

Interest expense includes interest paid on the Euroclear account (amounting to €26,088) and the PM account held at the Bank of Italy (€79,770).

Fee and commission expense

The item includes custody fees and expenses paid to Euroclear Bank SA and account fees paid to the Bank of Italy (for a total of €18,400).

Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss - a) financial assets and liabilities designated as at fair value

The item includes the increase in the fair value of the financial instruments subscribed in accordance with the Investment Policy for the EX Ante Quotas of the RAFs and for intercompany capital support operations less the amount reattributed on a pro rata basis to the affiliated banks, in accordance with the accounting model established for the dedicated loan.

110.a	**Net gain (loss) on financial assets and liabilities designated as at fair value**	**(1,491,069)**
- of which: financial assets and liabilities designated as at fair value		*(1,817,974)*
- of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)		*326,905*

(euros)

Other operating expenses

The items refers to the change in the value of the Ex Ante Quota pertaining to the Parent Company (€0.061 million) in reflection of the performance of the dedicated loan as at June 30, 2020.

REPORT OF THE AUDIT FIRM

Building a better working world

Iccrea Banca S.p.A.

Review report on the interim financial statements

(Translation from the original Italian text)

Building a better working world

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Review report on the interim financial statements
(Translation from the original Italian text)

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows for the six-month period ending June 30, 2020 and the related explanatory notes to the financial statements of Iccrea Banca S.p.A.. The directors are responsible for the preparation of the interim 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 financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim 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 financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of Iccrea Banca S.p.A., for the six-month period ending June 30, 2020, 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.

Rome, October 13, 2020

EY S.p.A.
Signed by: Wassim Abou Said, Auditor

This report has been translated into the English language solely for the convenience of international readers.