Interim Report and Consolidated and Separate Financial Statements at June 30, 2019

Report and Interim Consolidated Financial Statements at June 30, 2019
of the Iccrea Cooperative Banking Group

Report and Interim Financial Statements at June 30, 2019
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
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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)	

* 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

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	*Alternate Auditor*
VENTO Gianfranco Antonio	*Alternate Auditor*

GENERAL MANAGEMENT

PASTORE Mauro	*General Manager*
BOCCUZZI Giovanni	*Deputy General Manager*

INTRODUCTION

On March 4, 2019, the Iccrea Cooperative Banking Group was entered in the Register of Italian Banking Groups, effective as of January 1, 2019. At the time of registration, the Group was made up of 162 companies, including 142 affiliated mutual banks, the Parent Company Iccrea Banca SpA, and other companies held either by the Iccrea Banca SpA directly or by the affiliated mutual banks themselves. The ICBG is the leading banking group owned entirely by residents of local communities within Italy by way of an ownership structure encompassing about 800,000 member shareholders, nearly all of which are either households or small businesses.

The Cooperative banking reform, which led to the creation of the cooperative banking groups, sought to ensure industry stability, while allowing the Parent Company, when needed, to access capital markets and providing stability mechanisms for the individual members of the Group by way of a system of cross-guarantees. At the same time, the intent of this new legislation was to enhance the overall competitiveness and efficiency of the mutual banking system - while maintaining the close ties to local communities that have always been the vocation of mutual banks, the customers of which are, as a result, largely households and small to mid-sized businesses—by signing “cohesion contracts” with the various members of the Group that give the Parent Company powers of management and coordination in order to ensure a uniform strategic direction.

The mutual banks, which account for nearly all of the equity and more than four-fifths of consolidated assets, are the driving force of the entire Group and operate through an extensive branch network with a presence throughout Italy. With the help of the participating product companies, the Parent Company ensures that the affiliated banks are able to provide their customers with all the banking, investment and insurance products needed, thereby ensuring that the Group is able to meet the needs of customers throughout Italy despite the smaller sizes of the mutual banks themselves.

As of June 30, 2019, the new Group had total consolidated assets of €151.3 billion, largely in the form of loans to customers and securities, as well as equity of €10.2 billion and own funds made up largely of tier-1 capital at a level amply in excess of regulatory requirements. The close ties to the community are at the core of stability in liquidity even during periods of crisis, with customer deposits remaining a major component of liabilities over time.

In terms of profitability, the Group closed the first half of the year with net profit of €181 million. The traditional business model ensures that this performance is largely attributable to net interest income and net fee and commission income, both of which ensure total coverage of overhead costs and of risk. Nonetheless, financial performance is also to be assessed in light of the aforementioned mission of the affiliated banks, which see their ties to and support for their local communities as their primary purpose, as explicitly stated under Article 2 of the mutual banks’ standard articles of association.

The rationalization of the network and of the organizational structure over the years, which has continued in the first half of 2019 with two more mergers, the substantial process of de-risking that began in earnest in coordination with the Parent Company in 2018, and the new Group strategies being established, which represent a starting point for a general relaunch of the Group aimed at ensuring overall stability and efficiency in line with the mutual banking vocation and the ties of the mutual banking system to the local communities. These strategies will focus even more on the development of relationships with households and with SMEs by taking full advantage of the extensive branch network and of synergies and economies of scale and of expansion of the commercial offering, all of which is made possible by belonging to a banking group of national reach.

1. ECONOMIC DEVELOPMENTS

THE MACROECONOMIC ENVIRONMENT INTERNATIONALLY AND WITHIN ITALY

In 2019, global trade slowed significantly to an average year-on-year growth rate of just 1.4%, markedly slower than the 3.3% growth posted in 2018.

In the first quarter of 2019, China confirmed its year-on-year GDP growth at the end of 2018 of 6.4%, but that growth slowed in the second quarter (+6.2%) despite the economic rate has increased modestly to 1.6% (vs. 1.4% in the first quarter). A breakdown of expenditure by category shows that international trade is the limiting factor in this period. Negotiations in the trade war with the United States are moving forward slowly as the U.S. increased tariffs in early September, tariffs which now affect nearly all Chinese exports to the U.S. to varying degrees.

Despite these trade tensions, the U.S. economy has continued its strong growth and is at near full employment, although GDP growth slowed in the second quarter (0.5% over the previous quarter, 0.8% in the first), and economic indicators continued worsening through the summer. Household and business confidence continue to weaken and has spread to the service sector. Industrial production fell again in July and, given the persistent signs of slowing in manufacturing, there are now questions as to if and when the weakness of this segment will also extend to services. The Fed has signaled its concern that the current slowdown could further weaken domestic inflation (although hourly wages continue rising at around 3%, core PCE inflation has turned downward to 1.5%) and is prepared to reduce rates even further.

In the second quarter of 2019, GDP in the euro area cut its cyclical growth rate in half to 0.2% quarter on quarter, down from 0.4% in the previous quarter, holding year-on-year growth down to 1.2%. Within the euro area, German GDP posted a decrease (-0.1% on the previous quarter), while the rate of growth in France remained unchanged at 0.3% over the previous quarter. In July 2019, industrial production in the euro area decreased by 0.4% compared with the previous month (-1.8% year on year). Retail sales in the euro area grew by 2.3% year on year in July 2019, although they slipped backward on a quarterly basis (-0.6%). In August 2019, business confidence index for the euro area improved to -5.9 (up from the -7.3 of July, but worse than the second-quarter average). The consumer confidence index for the euro area in August 2019 slipped to -7.1 from -6.6 for the previous month. In June and July 2019, unemployment remained stable at 7.5% (vs. the 7.7% average for the first half of the year).

The European Central Bank (ECB) has ensured it is fully committed to bringing inflation back in line with the target and, implicitly, to combat the negative effects of the persistent cyclical weakness worldwide, which is having a significant impact on the European economy. Europe will also need to deal with political tensions in the United Kingdom over how that country will withdraw from the European Union. Within this context of great uncertainty, the ECB Governing Council further broadened its expansionary monetary policy in September, inviting countries with the fiscal capacity to adopt expansionary budget policies. In line with the ECB's objective, these efforts are aimed at making the channels of monetary policy transmission as fluid as possible by granting more favorable conditions for the TLTRO III tenders, a new plan for securities purchases, quantitative easing, and a differentiated remuneration of banks' deposits with the ECB.

In Italy, the recessionary phase that began in the second half of 2018 has ended, but economic growth has remained essentially flat and decidedly slower than that in most of the country's European partners.

In the first half of the year, private consumption returned to growth (+0.2%) following the stagnation of the previous six months, although this modest rate of increase is slower than that of the leading European countries. Although slowing, private consumption posted cyclical growth of 0.7% in Spain, while in Germany it accelerated to 1.1%, and grew 0.6% in France. Capital expenditure, net of construction spending, increased by 1.3% on the strength of a rebound in the second quarter, likely connected to the restoration of fiscal incentives (the "super-amortization" incentive).

THE FINANCIAL MARKETS

Equity markets showed greater uncertainty in the second quarter of 2019. After moving sharply upward in the first three months, more recently the markets have fluctuated to a greater extent, with varying levels of performance geographically, reflecting the unexpected deterioration in trade negotiations between the United States and China following a period in which a solution seemed near. Stock prices had, at least until early May, continued the upward trend from the first quarter, benefiting from a generally strong propensity for risk supported, in part, by a number of positive macroeconomic surprises in the United States and the EMU and from the loosening of monetary policy in China within a climate of easing trade tensions. At the end of April, the U.S. stock market hit a new record, and European prices approached the heights of last year. Nonetheless, in early May the unexpected announcement of increased tariffs (from 10% to 25%) in the U.S. on $200 billion in goods imported from China and the consequent Chinese countermeasures brought down market indices around the world, causing significant losses that were amplified by profit-taking following the extraordinary gains of the first part of 2019.

In the presence of slowing growth in economic activity globally and expectations of slowing inflation, central banks are again the dominant factor impacting the markets, taking positions, explicitly or otherwise, that are being interpreted as preludes to new expansionary measures. As a result, the possibility that the Fed could cut rates as early as this year and that the ECB could take further stimulus measures have buoyed stock prices by reducing risk-free rates.

PERFORMANCE OF THE BANKING BUSINESS

Private-sector lending growth continues. Bank lending, corrected for securitizations and other assignments, increased by 3.4% in the EMU but by just 0.8% in Italy, where the growth rate remains conditioned by the “base effect” due to the significant increase in lending to non-financial companies in January 2018, which was the end of the reference period for existing lending for calculation of the rate to be applied to TLTRO II loans. This has been accompanied by weak annual growth in business lending in Italy compared with the average for euro-area countries, with a negative growth differential of 4.5 percentage points, while growth in consumer lending remained stable at 2.6% annually at the end of 2018, but 0.8 percentage points lower than the EMU average. In April, the flow of business lending was positive at over €3.5 billion (-0.6% annually), entirely in the segment of lending due within one year, whereas longer-term lending contracted. Nonetheless, for the first four months of the year, the overall flow of lending was a negative €0.5 billion.

Also in April, household lending increased by 2.6% annually, in line with the end of 2018, with a monthly flow of €1.1 billion (about €5 billion since the start of the year). Consumer credit posted the greatest growth (9.0%), and home loans also continued growing (1.6% annually), while other forms of lending have continued to contract. The solid growth in consumer spending has sustained the demand for credit, although weakness in the durable goods cycle limited that growth. Total funding increased by nearly €24 billion (3.3% annually in April), the result of an increase in direct funding in the more liquid segments (with current accounts increasing by 4.7%) and in fixed-term deposits, which increased by over €5 billion (3.6% annually) after five years of significant outflows, and time deposits repayable with notice also increased as a result of the funding of Cassa Depositi e Prestiti, which is included in this type of deposit. Economic weakness and uncertainty have driven a reallocation of savings to less risky forms of investment in recent months, although fixed-term deposits have featured minimal, if slightly higher, yields. International funding also made a positive contribution, in the amount of €11 billion, while bond volumes have continued to contract due to a reduction in net retail placements. The increase in deposits is attributable to both households and firms, whereas the decline in repurchase agreements is related entirely to operations with central counterparties.

In the first four months of 2019, non-performing loans decreased by €7.3 billion (-43.9% annually), a reduction in terms of their ratio to total lending of 0.4 percentage points compared with the end of 2018. This decline was most evident in the construction segment (-1.7%, -0.7% for all firms), which was most affected by the economic crisis and had a ratio of non-performing exposures nearly 15% greater than the average for all firms. For the current year, the disposal of non-performing positions is expected to continue at a rapid pace, for a total of about €40 billion. The economic slowdown is expected to be only marginally reflected in a reduction in credit quality due to lending policies aimed at selecting less risky borrowers.

Capital ratios have improved slightly compared with the end of 2018. The fully-loaded CET1 ratio for significantly important banks (SIBs) reached 11.9% (12.5% proforma), an increase of 10 basis points from year end due, in part, to retained earnings, which more than offset the effect of the introduction of IFRS 16, as the adoption of this new international accounting standard resulted in a certain discontinuity in the recognition of operating leases among lessees. Banks are continuing to implement strategies to increase their capital ratios, which, compared with their European peers, remain among the lowest along with the Spanish banks. SIBs are simplifying their corporate structures, in part by selling off non-strategic shareholdings, and are working to optimize their risk-weighted assets (RWAs), selling properties and reducing NPLs.

The prudential requirements based on the Supervisory Review and Evaluation Process (SREP) for significantly important banks, as required by the ECB for 2019, are, in most cases, in line with those of 2018, despite the regulatory requirement for a gradual extension of the addendum to impaired loans.

POTENTIAL DEVELOPMENTS IN THE ECONOMIC, POLITICAL AND REGULATORY LANDSCAPE

The current economic outlook is for GDP growth of slightly above zero for the second half of the year, despite weak signs of improvement originating mainly abroad and assurances that the central banks are prepared to combat any signs of a recession. These timidly encouraging signs should be accompanied by the effects of the expansionary measures being implemented. The “Quota 100” early retirement scheme and the “Citizenship Income” measure, the two cornerstones of Italy’s 2019 budget, have gone into effect, and beneficiaries began taking advantage of them in April. For now, the number of people taking participating in the schemes is smaller than expected, particularly for the Quota 100 mechanism. In the light of this, GDP growth is expected to be 0.1%, which is enough to overcome stagnation and reach around 0.5% by year end. At this pace, and in the absence of any unpleasant surprises, Italy’s economy should achieve stability throughout next year.

However, a crucial moment will come in September when the Update to the Economic and Financial Document will be issued and the budget for 2020 drafted. This period will be particularly challenging in that it will be necessary to finance the revenue shortfall caused by not implementing the VAT increases currently envisaged in the budget, for which it will be necessary to recover €23 billion.

Nonetheless, once the threat form Italian budget policy is defused, the measures announced by the ECB to ensure liquidity for the banking industry (TLTRO III) and the further reduction of rate on deposits (to -0.5% in July) will facilitate lending to the economy while limiting the risk of a deterioration in supply-side constraints, in addition to helping anchor expectations concerning the stability of the European economy and a gradual increase in inflation. Given these assumptions, GDP growth could keep pace with its potential rate of 0.5% next year and reach as high as 0.7% by 2022, when the period of greatest slowing of the world economy will have passed and foreign demand will revive.

The latter part of 2019 will feature the first two T-LTRO III tenders in September and December.

The greater liquidity that will become available will permit the start of gradual management of the repayment of the ECB loans still outstanding. Both loans and reserves with the ECB will continue to decrease as a ratio to total bank assets, whereas the securities portfolios and foreign assets are expected to expand. On the funding front, deposits are also expected to increase relative to total assets, mainly attributable to the growth in current accounts while both bond and foreign funding decline.

Banks are continuing to implement strategies to increase their capital ratios, which, compared with their European peers, remain among the lowest along with those of the Spanish banks. Significantly important banks are simplifying their corporate structures, in part by selling off non-strategic shareholdings, and are working to optimize their RWAs, selling properties and reducing NPLs. Over the next few years, regulatory and supervisory measures (including the new definition of default, the EBA Guidelines, and completion of the Targeted Review of Internal Models, or “TRIM”) could lead to a reduction in capital ratios. However, expectations are for a recovery in profits for the industry and for a further reduction in RWAs, which will be supported by the “banking package”, i.e. the revisions to the CRR and to CRD4, which will come into effect as from 2021.

Efforts continue to reduce impaired loans, and further disposals of some €50 billion are expected over the period from 2020 to 2022.

2. CREATION AND LAUNCH OF THE ICCREA COOPERATIVE BANKING GROUP

In 2018 and the first few months of 2019, work was completed on the key steps leading up to the creation of the Iccrea Cooperative Banking Group (ICBG).

On April 27, 2018, following the reform of Italy's Consolidated Banking Act (Legislative Decree no. 385/1993) with Law 49/2016 and the related implementing measures of the Bank of Italy,[1] Iccrea Banca, with the constant support of the participating mutual banks, began the Group's authorization procedures with the ECB and the Bank of Italy with the preparation and submission of the related application and supporting documentation. On July 24, Iccrea Banca received the ECB's declaratory finding in accordance with Article 37-*ter*, paragraph 2, of the Consolidated Banking Act.

Therefore, in September of last year, with the consolidation of the legislative framework concerning the Law 108/2018 reform, the process of Group participation began with the definition – as per the agreement between the participating mutual banks and the Parent Company – and subsequent approval by shareholders of the changes to the articles of association of the mutual banks based on the standard template for participating mutual banks and of the new rules for shareholders' meetings and the appointment of officers of the Iccrea Cooperative Banking Group.

The participating mutual banks then signed the cohesion contract and guarantee agreement, which were submitted to the Bank of Italy and the ECB, along with the amended articles of association, on January 18 of this year along with the application for entry in the Register of Banking Groups.

With this registration of the Iccrea Cooperative Banking Group (ICBG) with the Register of Banking Groups on March 4, 2019, the authorization process required under the Cooperative banking reform was completed.

As the reader will be aware, this reform of Italy's 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 marketplace and legislative landscape, 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 smaller size of each individual bank.

The cohesion contract

The approach adopted calls for formation of a group based on contractual arrangements between a central body and the affiliated banks.

The cooperative 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). In this regard, a distinction should be made between issues that are directly relevant to the objectives of prudence and those that are not. For the former, when exercising its management and coordination role – which concerns all of the group's banks with the goal of ensuring compliance with the rules of prudence and the obligations established by the competent authorities – the principle of proportionality concerns the intensity of the Parent Company's oversight, intervention and sanctions. For issues that are not directly relevant to the objectives of prudence, transposition of the statutorily defined principle of proportionality into the cohesion contract is left to the individual parties (without prejudice to the need to comply with the standards and principles established by the provisions).

Signed in January 2019 by all affiliated banks, 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 exercises, in particular, in areas in 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

[1] The mutual banking reform began with Decree Law 18 of February 14, 2016, as amended and ratified with Law 49/2016, which introduced the concept of "mutual banking group" as defined under Article 37 of the Consolidated Banking Act. The provisions of this law are supported by secondary implementing legislation of the mutual banking reform issued by the Bank of Italy (in its circular no. 285 of December 17, 2013, specifically in Part III, Chapters 5 and 6), which was then followed by legislation definitively implementing the reform (November 3, 2016). The primary legislation was supplemented with Decree Law 91 of July 25, 2018, as amended and ratified with Law 108/2018 and as further amended with Law 136 of December 17, 2018. Finally, the amendment with Article 1 paragraph 1072 of Law 145/2018, which introduced point 2-*bis* of Article 38 of Legislative Decree 136 of August 18, 2015, concerning financial reporting for banks, established the procedures for preparing consolidated reports, stating that, in the case of mutual banking groups, as defined under Article 37-*bis* of Legislative Decree 385 of September 1, 1993, the parent company and the mutual banks affiliated by way of "cohesion contracts" represent a single consolidating entity.

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 of nominations 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 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 that appointment of members of the boards of directors and of auditors is 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, as established in the Consolidated Banking Act, 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.

In particular, 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 bank 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.

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.

After entering the ICBG in the Register of Banking Groups, the Parent Company issued the internal regulations governing the operation of the cross-guarantees scheme described above, including the principles of governance, the rules of functioning and operation, the roles and responsibilities of the corporate bodies and functions involved in the Guarantee Scheme, the accounting procedures, the rules of prudence, the models of assessment, the policies for investing cross-guarantee funds, and the procedures for activating and managing intercompany support efforts. These measures were transmitted to the mutual banks in order to be adopted by way of resolutions of their boards of directors.

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.

In accordance with the cohesion contract, the affiliated banks earn a return on funds paid into the Guarantee Scheme. More specifically, affiliated banks that generate a greater guarantee than the assigned amount pay a premium to the affiliated banks generating a guarantee that is lower than the assigned amount. The premium paid/received by the affiliated banks for their contribution to generating/covering the guarantee is calculated by applying a rate of return established annually by the Parent Company in a manner that varies depending on the type of guarantee requirement assigned and generated (both ex ante and ex post).

Implementation of the new governance structure

On January 10, 2019, the shareholders of Iccrea Banca approved the new articles of association, amended in execution of laws and supervisory provisions concerning the establishment of the ICBG by adding new provisions or by adapting or eliminating provisions that were no longer compatible with said laws and regulations.

The main changes include the following:

- the introduction of a new section of articles that describe the special features of the ICBG, especially as concerns the actions of the Parent Company (Article 6), the procedures for the admission, exclusion and withdrawal of ICBG affiliated banks (Articles 7, 8 and 9), and the Guarantee Scheme (Article 10);
- amendments to the provisions concerning the organizational structure. In particular, in accordance with applicable statutory provisions, at least 60% of the ordinary share capital of the Parent Company must be held by the affiliated banks (Article 14.3). The articles of association also state that no shareholder may hold, either directly or indirectly, more than 10% of shares with voting rights (Article 13.2);
- actions aimed at revising the appointment, composition and functioning of the Board of Directors.

As concerns the appointment of the members of the Parent Company's Board of Directors, it should be noted that, in addition to the outgoing members of the board, shareholders holding at least 15% of share capital may also present slates for the appointment of new directors. With regard to the actual composition, the Board of Directors appointed on April 30, 2019, has 15 members, ten of whom were appointed from among the affiliated banks' boards of directors, while five are independent. Of these independents, four are also non-executive directors, while one, who also serves on the Executive Committee, only meets the independence requirements. Given that applicable regulations require directors coming from the affiliated banks to be selected based in part on merit and performance, the articles of association state that directors of banks that have been involved in corrective measures or received intercompany support, as well as individuals who have been officers at affiliated banks during the two years prior to such actions, are ineligible for appointment.

In accordance with the role of Parent Company within the ICBG, the responsibilities of the Board of Directors have been updated to include specific responsibilities concerning the affiliated banks, including as regards the appointment of their officers and approval of transactions of strategic importance that concern them.

Finally, board committees now also include a new committee alongside the existing remuneration, risks and appointments committees. Known as the Affiliated Bank Controls & Interventions Committee, it is made up solely of independent directors and provides specialist support in evaluating issues related to the classification of the affiliated banks. The committee has advisory and assessment powers within the scope of the Guarantee Scheme and of the system of affiliated bank controls and interventions.

Amendments to the articles of association of the affiliated banks

Within the framework of the aforementioned cooperative banking reform and in line with the new provisions of the amended Consolidated Banking Act, new supervisory regulations, and the cohesion contract, the standard articles of association of the mutual banks continues to serve as the focal point of the various sources governing these banks. The main changes made to the articles of association of the affiliated banks were made necessary for participation in the Group and to take account of changes in laws and supervisory regulations.

In particular, new provisions have been included that describe the banks' participation in the Group, the powers of management and coordination of the Parent Company, and the obligations defined in the cohesion contract and in the Guarantee Scheme, which are exercised in part by way of binding measures of the Parent Company. These powers, as defined in primary legislation and in supervisory regulations, concern observance of the provision of prudent management and of lending, including provisions concerning corporate governance, remuneration and incentive policies and practice, the system of internal controls, the information system and business continuity, allowable investments, risk management and conflicts of interest with related parties, transparency in banking, and provisions concerning usury and money laundering.

Other new, fundamental legislation concerning the configuration of the mutual banking group based on contract, as defined by the Consolidated Banking Act in relation to the means of group support, concern the issuance by a mutual bank and subscription by the Parent Company of the financing shares allowed under Article 150-*ter* of the Consolidated Banking Act. In order to ensure the timeliness of any recapitalization efforts, directors have been given the power to increase capital up to an amount determined by the Parent Company. By law, these financing shares may be subscribed and held solely by the Parent Company, by the guarantee systems established between mutual banks, or by mutual funds for the promotion and development of cooperation.

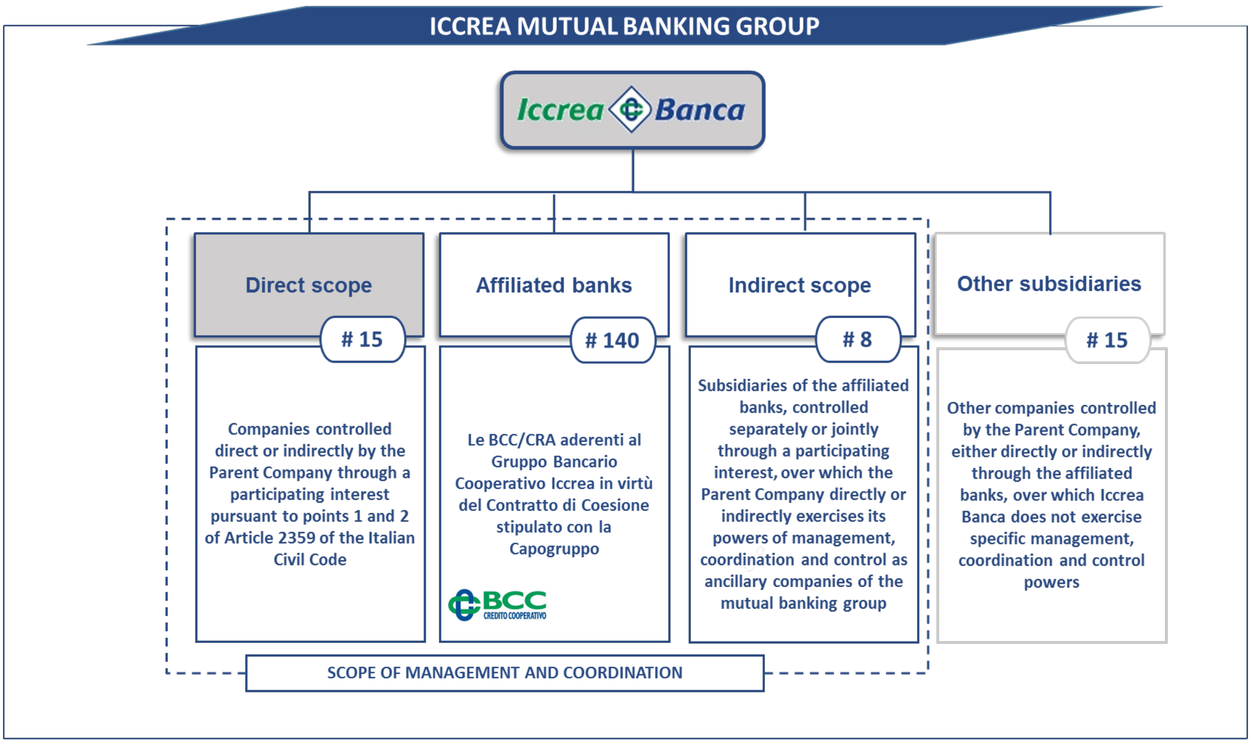
Another provision needed in order to allow for the existence of the mutual banking group concerns the powers of appointment, opposition and revocation of officers of the mutual banks, granted to the Parent Company in certain specific cases. The actual implementation of the powers of the Parent Company is completed by standard rules of appointment and of shareholder meetings adopted by the mutual banks, which describe the forms, methods, terms and phases of appointment and of shareholder meetings, particularly as concerns consultation with the Parent Company. Such consultation ordinarily takes places after the nominations, but may take place in advance in the event of banks that find themselves in any of the situations specifically defined in the cohesion contract.

These rules and the articles of association, as prepared by the Parent Company and approved by the supervisory authorities, have been adopted by all of the Group's affiliated banks.

The organizational structure of the Iccrea Cooperative Banking Group

As at June 30, 2019, 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 explanatory notes (Part A – Accounting Policies, section 3, sub-section 1). This scope of consolidation essentially coincides with the prudential scope of consolidation.

Revision of the Parent Company's organizational model consistent with the new group structure

Efforts aimed at revising and integrating the entire organization of the Parent Company with a view to creating the Iccrea Cooperative Banking Group, which began during the previous year, have resulted in the definition of a profoundly different organizational structure based on the functional model and on the strategies and operations required by applicable legislation and by the cohesion contract, which can be categorized into the following areas: *(i)* management, coordination, guidance and control; *(ii)* the provision of services to the affiliated banks and to the companies of the direct scope; and *(iii)* performance of the activities of the Parent Company.

Within this context, units responsible for the following functions have been established or reinforced:

- the monitoring and guidance of the affiliated banks (including issues related to the cohesion contract and the Guarantee Scheme);
- the system of internal controls and integrated risk management;
- strategic and operational planning and management control;
- the management of consolidated financial, accounting and regulatory information;
- the management of legal and corporate affairs and of relations with the supervisory authorities;
- the coordination and control of performing and non-performing loans;
- the management of operational and organizational levers;
- the definition and implementation of commercial and marketing strategies.

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.

Therefore, in order to take account of the particular characteristics of the ICBG, the Parent Company's new organizational model includes:

- 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[2] (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. For more information, see the section herein concerning the system of internal controls (Chapter 11).
- areas that report to the General Manager and which are centered around the following main areas of responsibility:
    - the Chief Operating Officer (COO), 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 Chief Financial Officer (CFO), 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 with ratings agencies;
    - the Chief Lending Officer (CLO), the area responsible for managing all areas of lending – from loan approval to the management of non-performing loans – and for overseeing and coordinating these activities carried out by the affiliated banks. The CLO also manages credit quality, defines lending policies, and ensures their implementation. This area 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), the 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), which are responsible for defining and implementing ICBG commercial policies, and the regional market areas, which are 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;

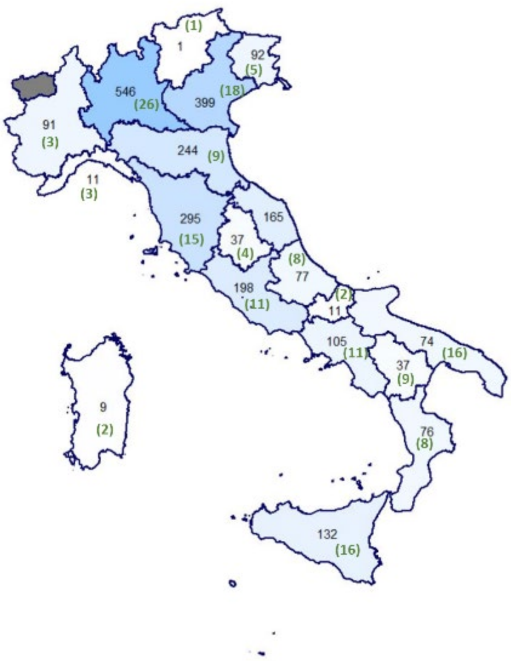
[2] An area that includes the function of Data Protection Officer.

  - the Chief Information Officer (CIO), the area that provides information services to the Parent Company and to the other companies of the ICBG based on an outsourcing agreement, including by way of companies of the Group, exercising oversight and coordination over said companies;
  - the Chief Human Resources Officer (CHRO), the area responsible for defining the rules for the management and development of human resources in line with the Group's strategic development plans;
- units established or enhanced during the transition from the IBG to the ICBG, including: Communications & Media Relations; General Counsel; Mutual Bank Governance; Public Affairs & Sustainability; and Supervisory Authority Relations. The Mutual Bank Governance unit, in particular, is responsible for contributing to and managing the guidance and coordination efforts called for in the cohesion contract with regard to capital and financial management policies and 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.

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.

On June 17, 2019, in conjunction with the appointment of the Iccrea Banca SpA Board of Directors, Mauro Pastore was appointed to the position of General Manager. As recommended by the new General Manager, the Board of Directors is again revising the Parent Company's organizational structure in order to further optimize the structure of senior management and better focus the actions of the Parent Company on achieving the goals that are to be set under the upcoming 2020-2022 Strategic Plan.

The ICBG branch network



Key: number in parentheses is the number of mutual banks with a presence in the region

The IBMG is Italy's third largest banking group by number of branches. The branch network is made up of 140 mutual banks with some 2,600 branches (including the branches of Banca Sviluppo S.p.A.), 57% of which are located in the regions of Lombardy, Veneto, Tuscany and Emilia.

The branch network has a market share within Italy of 10.5%, with peak shares in the regions of Marche (20%), Calabria (19%), Basilicata (17%), and Veneto (16%).

Geographical area	ICBG branches	Total Bank Branches	Market share
Northeast	736	6,422	11.5%
Northwest	648	7,698	8.4%
Center-North	460	2,695	17.1%
Central	332	3,712	8.9%
Southwest	313	2,911	10.8%
Southeast	111	1,300	8.5%
Total	**2,600**	**24,738**	**10.5%**

This distribution of ICBG branches by geographical area shows that 71% of the Group's branches are located in the northeast, northwest and center-north areas. During the first half of 2019, four new branches were opened and 13 were closed, for a net decrease of nine branches since January 1, 2019.

The ICBG has a presence in 1,759 Italian municipalities, which equals 33.4% of all municipalities with banking services. In 308 of these municipalities (17.5% of the total), the ICBG is the only bank represented, which testifies to the Group's mission of supporting local communities. Lombardy is the Italian region in which the ICBG serves the largest number of municipalities (421), whereas Tuscany is the leader in terms of penetration in municipalities served by at least one bank (61.7%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only presence	(%)
Lombardy	1,103	421	38.2%	85	20.2%
Veneto	489	270	55.2%	27	10%
Tuscany	256	158	61.7%	3	1.9%
Emilia Romagna	310	121	39%	2	1.7%
Sicily	285	108	37.9%	31	28.7%
Lazio	230	104	45.2%	17	16.3%
Marche	187	99	52.9%	10	10.1%
Campania	294	87	29.6%	37	42.5%
Calabria	146	68	46.6%	40	58.8%
Piedmont	540	62	11.5%	9	14.5%
Friuli–Venezia Giulia	162	61	37.7%	11	18%
Puglia	209	58	27.8%	1	1.7%
Abruzzo	157	57	36.3%	11	19.3%
Basilicata	85	35	41.2%	14	40%
Umbria	78	20	25.6%	2	10%
Molise	35	11	31.4%	7	63.6%
Liguria	127	10	7.9%	1	10%
Sardinia	284	8	2.8%	-	0%
Trentino–Alto Adige	261	1	0.4%	-	0%
Valle d'Aosta	27	-	0%	-	0%
Total	**5,265**	**1,759**	**33.41%**	**308**	**17.5%**

Geographical area	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only presence	(%)
Northwest	1,797	493	27.4%	95	19.3%
Northeast	1,222	453	37.1%	40	8.8%
Southwest	725	263	36.3%	108	41.1%
Center-North	443	257	58%	13	5.1%
Central	784	200	25.5%	37	18.5%
Southeast	294	93	31.6%	15	16.1%
Total	**5,265**	**1,759**	**33.41%**	**308**	**17.5%**

In terms of competitive pressure, at least one branch of another bank is present in 82.5% of the municipalities.

No. of other banks present in the municipalities in which the ICBG has a presence	0	1	2	3	more than 3	Total
No. Municipalities	308	347	299	168	637	**1,759**
% of the total	17.5%	19.7%	17.0%	9.6%	36.2%	**100.0%**

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

The extensive reach of the ICBG branch network and the Group's business model is the result of the historical mission of the participating mutual banks, which remains that of social responsibility, support for local communities, and close relations with customers, local institutions, and the community at large.

Indeed, given their legal nature, the affiliated banks are subject to a special framework of primary and secondary legislation for mutual banks in Italy concerning the community-centric objectives they pursue, as recognized under Article 45 of the Italian Constitution. 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.

More specifically, primary legislation (Articles 33-37 of the Consolidated Banking Act, as amended by the aforementioned legislation governing mutual banking groups, which also introduced Articles 37-*bis* and 37-*ter*) 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[3], states that no less than 95% of all business shall be conducted within the bank's territory, and at least 50% of this business shall be in favor of shareholders, 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 special legislation and the business model that has characterized the mutual banking segment over the years are responsible for the great numbers of shareholders of the affiliated banks and for typical customers of such banks.

The number of shareholders, specifically, totaled just under 800,000 as at June 2019, growing 1.7% from January 1, 2019, and with a high concentration in central and northern Italy. The limits on shareholdings and the obligation to retain earnings have the effect of ensuring that the typical shareholder is a household or small business interested more in the local service provided than on the return on investment, with a relatively small average stake held by each individual shareholder.

Geographical area	No. shareholders June 2019	(%)	No. shareholders December 2018	Chg Jun19-Dec18
Northwest	237,217	29.7%	232,770	1.9
Northeast	205,865	25.8%	200,611	2.6%
Center-North	178,056	22.3%	178,446	-0.2%
Central	80,205	10.1%	77,976	2.9
Southwest	71,315	8.9%	69,799	2.2%
Southeast	25,273	3.2%	25,129	0.6%
Total	**797,931**	**100.0%**	**784,731**	**1.7%**

As described in greater detail in the specific section of Chapter 4, in terms of type of account holder and type of financing, the typical borrower appreciates the cooperative, local nature of a mutual bank, with a significant portion of lending going to households (with a large part of such lending in the form of medium to long-term, mortgage-backed home loans) and to SMEs (a major component of which are sole proprietorships and other small businesses). This is due, in part, to the extensive knowledge mutual banks have of the communities in which they operate and to their consequent, particular ability to evaluate local business ventures, which has resulted in mutual banks historically being the bank of choice for this type of borrower.

The mission of the mutual banks: social responsibility and environmental protection

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 actions of social responsibility.

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

[3] 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.

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 (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 reports on social responsibility, which point to a great many products and projects dedicated to their shareholders, to nonprofit 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 solely 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, though 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.

Significant sums are also donated to local charities and to otherwise benefit local communities, and these donations are governed by specific company policies that specify the areas of intervention and define the decision-making processes and procedures.

More specifically, charitable donations mainly go to supporting the following types of activity of public utility and solidarity:

- 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.

Microcredit, governed by Article 111 of the Consolidated Banking Act and promoted as a tool of social and economic development by providing access to credit for young entrepreneurs with great ideas and initiative but little or no collateral, is another important partnership initiative. 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 creation of the Iccrea Cooperative Banking Group is certain to facilitate the sharing of best practices and the experience of the affiliated banks and of the Parent Company in this field, while taking further advantage of the Group's strengths and increasing efficiency in any areas of weakness. It will also further enhance the ability of the affiliated banks, an ability they possessed even prior to creation of the Group, to rise up as examples of excellence nationally. By way of example, in December 2018, two affiliated banks were among the top eight banks in Italy active in providing home loans under the Fondo Prima Casa convention, which provides subsidized home loans to borrowers who meet the requirements to access the guarantee fund managed by Consap SpA for first-home purchases, an initiative tied to purchases of the borrower's primary residence and projects to refurbish them or increase their energy efficiency.

After creation of the ICBG, the banks continued their commitment to promoting initiatives in the following areas:

- social services, including public leasing, leasing for social housing, cards for students and other young people, donations and other philanthropic initiatives for nonprofit organizations, sponsorships of cultural and social events, and dedicated products for nonprofits or other categories of social-service organizations;

- environmental services, with mortgage lending and pool finance for the construction of renewable energy systems and Crediper Green products for retail clientele. In the first half of 2019, in order to reinforce support in this area, the Group added the specialist firm BIT SpA to its organization;
- the development of agriculture, including loans to help young people start up farming businesses, innovative investments in agriculture, and the production of agricultural energy by way of the agreement with the European Investment Fund for access to the AGRI guarantee facility;
- the development of SMEs by helping mutual bank customers to access grants for interest relief within the scope of the Sabatini Law and to the Central Guarantee Fund for microcredit and other operations by way of the agreement with the European Investment Fund for access to the InnovFin guarantee facility, and initiatives of financial education for the mutual banks' business accounts;
- ethical finance, including the offering of the new Investiper Etico Bilanciato fund of BCC Risparmio e Previdenza and the placement of a wide range of third-party sustainable funds.

These same principles and values also guide conduct within the Group in the form of projects, policies and regulations that aim for efficiency and sustainability in managing:

- the environmental impact of the Group's offices, office refurbishment and energy-efficiency projects, the purchase of renewable energy by way of the BCC Energia consortium, the process of LEED certification, sustainable waste management, and sustainable mobility;
- human resources and people care, career training and development, internal communications, the involvement of employees in in-house studies, smart working, and company daycare;
- supply chains, with 95% of providers being Italian residents;
- occupational safety.

Pro-forma balance sheet highlights for the group as at January 1, 2019

Provided below are the highlights of the pro-forma balance sheet of the Iccrea Cooperative Banking Group at the moment of its creation, prepared based on reporting policies in line with those used to prepare the consolidated financial statements of the Group as at June 30, 2019.

The pro-forma consolidated figures as at January 1, 2019, have been reconstructed based on the final consolidated figures for the former Iccrea Banking Group as at December 31, 2018, and on the final separate financial reports of the mutual banks and other entities included within the Iccrea Cooperative Banking Group, net of eliminations of intercompany transactions and in application of the same consolidation policies adopted in preparing the Group's consolidated financial statements as at June 30, 2019.

THE BALANCE SHEET

€/thousands	1/1/2019 PF
Financial assets measured at fair value through profit or loss	1,861,601
Financial assets measured at fair value through other comprehensive income	14,604,998
Financial assets measured at amortized cost	125,779,577
Equity investments	169,714
Property and equipment and intangible assets	2,672,007
Tax assets and other assets	5,084,584
Total assets	**150,172,481**

€/thousands	1/1/2019 PF
Financial liabilities measured at amortized cost	135,904,179
Financial liabilities held for trading	266,203
Financial liabilities designated as at fair value and hedging derivatives	111,983
Provisions for risks and charges and termination benefits	737,120
Other liabilities and tax liabilities	3,345,489
Shareholders' equity	9,807,507
Total liabilities and equity	**150,172,481**

The asset structure of the Iccrea Cooperative Banking Group essentially reflects the nature of the affiliated banks and local banks with high levels of customer funding, a prevalence of lending to households and small businesses, and investments of excess liquidity above all in government securities.

As at January 1, 2019, the assets of the new Group exceeded €150 billion, of which about €83 billion was in loans to customers (included in financial assets measured at amortized cost), with two-thirds of this figure going to households (largely for home loans) and smaller non-financial companies. Financial assets other than loans to customers, totaling around 36% of total assets, were largely in government securities, with about three-fourths allocated to HTC portfolios, in line with the business model of the local banks.

As for direct funding, totaling over €100 billion (included in financial liabilities measured at amortized cost), about 90% was in deposits from customers, with bonds accounting for a more limited portion.

Further details on the asset and liability structure are provided in the report on operations below.

Pro-forma equity as at January 1 came to €9.8 billion and, compared with the previous year, includes the effects of application of IFRS 9, which – as for the rest of the Italian banking industry – affected both performing loans and a significant portion of impaired exposures, and bad debts in particular.

The table below shows the main indicators related to the credit risk of the new ICBG as at January 1, 2019, so as to show the trends in these indicators for the first half of the year.

Main Indicators	1/1/2019 PF
NPE ratio, gross	14.4%
NPE ratio, net	7.9%
NPE coverage	49.5%
Texas ratio	60.3%

The gross and net NPE ratios benefited from the efforts of the Parent Company in 2018 to improve the risk indicators of the ICBG affiliated banks as a whole (as discussed herein), which led to the prudent de-consolidation for accounting purposes of over €4 billion in gross bad debt in 2018 (bringing the gross NPE ratio to 14.4% and the net to 7.9%). Three-fourths of the total was done by organizing two multi-originator, GACS-backed securitization transactions as described previously. The remainder was achieved by way of non-recourse assignments of the portfolio by the mutual banks, partly supported by the Parent Company.

3. DEVELOPMENTS IN GROUP OPERATIONS

Provided below is an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at June 30, 2019. 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. The balance sheet figures as at June 30 are compared with the corresponding pro-forma figures at January 1, 2019.

THE BALANCE SHEET

Consolidated assets

€/thousands	30/6/2019	1/1/2019 PF
Cash and cash equivalents	806,655	937,131
Financial assets measured at fair value through profit or loss	2,392,152	1,861,601
Financial assets measured at fair value through other comprehensive income	9,850,320	14,604,998
Financial assets measured at amortized cost	130,614,294	125,779,577
a) due from banks	5,143,492	
b) loans to customers	83,424,929	
c) securities	42,045,872	
Hedging derivatives and value adjustments of macro-hedged financial assets	175,124	55,895
Equity investments	140,543	169,714
Property and equipment	2,816,694	2,537,146
Intangible assets	134,312	134,861
Tax assets	2,201,216	2,382,817
Other assets	2,162,716	1,627,350
Non-current assets and disposal groups held for sale	39,372	81,391
Total assets	**151,333,398**	**150,172,481**

Total consolidated assets of the Iccrea Cooperative Banking Group at June 30, 2019, totaled €151.3 billion.

Financial assets measured at fair value through profit or loss, in the amount of €2.4 billion, include financial assets held for trading in the amount of €0.4 billion (mainly in government securities held for trading), financial assets designated as at fair value in the amount of €0.5 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 €1.5 billion.

The tables below show these three portfolios and their related fair values based on tier system that reflects the significance of the inputs used to measure them. In particular:

- prices found on an active market (level 1);
- inputs other than security prices and which are observable directly (prices) or indirectly (derived from prices) on the market (level 2);
- inputs that are not based on observable market data (level 3).

€/thousands	L1	L2	L3
Financial assets held for trading	92,971	330,693	1,846
Debt securities	*67,171*	*1,611*	*62*
Equity securities	*8,780*	*178*	*58*
Units in collective investment undertakings	*16,942*	*8,417*	*-*
Loans	*-*	*1,086*	*-*
Financial derivatives	*78*	*319,401*	*1,725*
Financial assets designated as at fair value	492,372	5,430	6,608
Debt securities	*492,359*	*4,854*	*-*
Loans	*12*	*577*	*6,608*
Financial assets mandatorily measured at fair value	249,045	825,758	387,429
Debt securities	*38,770*	*159,709*	*5,191*
Equity securities	*2,953*	*198*	*21,608*
Units in collective investment undertakings	*207,321*	*209,663*	*16,054*
Loans	*-*	*456,188*	*344,576*
Financial assets measured at fair value through profit or loss	**834,388**	**1,161,881**	**395,883**

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS business model), in the amount of €9.8 billion, is mainly invested in government securities. The aggregate also includes minority shareholdings in the amount of about €150 million.

€/thousands	L1	L2	L3
Debt securities	9,582,604	115,398	21
Equity securities	7,783	2,068	142,442
Financial assets measured at fair value through other comprehensive income	**9,590,387**	**117,466**	**142,463**

With regard to financial assets measured at amortized cost, amounts due from banks amounted to approximately €5.1 billion, which includes, in addition to exposures related to ordinary liquidity management, the reserve requirement with central banks in the amount of €1.3 billion. In the table below, exposures to banks are classified in accordance with 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
Due from central banks	1,334,995	-
Loans to banks	3,808,329	169
Current accounts and demand deposits	*733,216*	-
Time deposits	*109,081*	-
Repurchase agreements	*241,267*	-
Other	*2,724,765*	*169*
Financial assets measured at amortized cost – Due from banks	**5,143,324**	**169**

Loans to customers show a balance of €83.5 billion, €77 billion of which performing and about €6.4 billion related to impaired positions. Among performing loans, the medium to long-term component amounts to approximately €53.2 billion, while lease financing totals €4.4 billion.

€/thousands	Stages 1 and 2	Stage 3
Current accounts	7,952,787	1,302,566
Repurchase agreements	2,051,737	-
Medium/long-term loans	53,236,575	4,404,317
Credit cards, personal loans and salary-backed loans	2,147,287	43,150
Lease financing	4,373,224	489,973
Factoring	365,123	13,921
Other lending	6,871,875	172,393
Financial assets measured at amortized cost – Loans to customers	**76,998,608**	**6,426,320**

Debt securities measured at amortized cost (HTC business model) amounted to €42 billion, in large part plain-vanilla securities with fixed and variable-rate coupons and the primary issuer being the Italian government.

The following table summarizes the set of financial assets measured at amortized cost classified by stage of risk. More specifically, performing loans to customers represent 85.9% of the total, of which 13.6% are in stage 2 as there has been an increase in credit risk compared with the time of initial recognition.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Loans	83,106,029	12,786,687	(964,097)	(6,360,198)
Loans to banks	*5,149,432*	*602*	*(6,109)*	*(433)*
Loans to customers	*77,956,597*	*12,786,085*	*(957,989)*	*(6,359,765)*
Debt securities	42,132,137	2,983	(86,527)	(2,722)
Total financial assets measured at amortized cost	**125,238,166**	**12,789,670**	**(1,050,624)**	**(6,362,920)**

Gross impaired loans amounted to approximately €12.8 billion, for a ratio to total gross loans of 13.3% (14.1% if only loans to ordinary customers are considered). Net impaired loans amounted to €6.4 billion, for a ratio to total net loans of 7.3% (7.7% when considering only ordinary customers). The ratios of net bad debts and unlikely-to-pay positions to net lending are equal to 2.8% (3% for ordinary customers) and 3.9% (4% for ordinary customers), respectively.

The coverage ratio for impaired assets was 49.7%. In particular, coverage was 63.9% for bad debts and 35.4% for unlikely-to-pay positions.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage
Bad debts	6,842,421	4,371,095	2,471,327	63.9%
Unlikely-to-pay positions	5,458,192	1,929,512	3,528,680	35.4%
Impaired past-due positions	485,472	59,158	426,314	12.2%
Impaired exposures to customers	**12,786,085**	**6,359,765**	**6,426,320**	**49.7%**

The particular business model of the affiliated banks[4], which account for the largest component of assets and of total loans to customers for the Group, is reflected, above all, in the type of borrower. Total loans disbursed by the Group, in the amount of €90.7 billion at June 30, 2019, have mainly gone to consumer households and small to medium-sized enterprises (SMEs),[5] which accounted for 34.2% and 45.8% 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 borrower	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
Ordinary customers	89,984,591	99.2%	85.8%	99.0%	14.2%	100.0%
Consumer households	31,060,322	34.2%	92.8%	37.0%	7.2%	17.5%
Small and medium-sized enterprises	41,582,042	45.8%	86.1%	45.9%	13.9%	45.2%
Producer households	*8,553,346*	*9.4%*	*84.7%*	*9.3%*	*15.3%*	*10.3%*
Micro-businesses, associations and other organizations	*8,896,075*	*9.8%*	*82.2%*	*9.4%*	*17.8%*	*12.4%*
Other SMEs	*24,132,621*	*26.6%*	*88.1%*	*27.3%*	*11.9%*	*22.6%*
Other non-financial companies	13,124,593	14.5%	64.5%	10.9%	35.5%	36.5%
Other financial companies	4,217,635	4.6%	97.7%	5.3%	2.3%	0.8%
Government entities	758,091	0.8%	99.6%	1.0%	0.4%	0.0%
Total loans to customers	**90,742,682**	**100.0%**	**85.9%**	**100.0%**	**14.1%**	**100.0%**

The Group's lending is concentrated in northern (55.2%) and central Italy (33.5%), with a lower incidence of impaired loans in the north.

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
Northeast	25,186,766	27.8%	87.4%	28.2%	12.6%	24.8%
Northwest	24,888,553	27.4%	86.3%	27.6%	13.7%	26.7%
Central	30,357,413	33.5%	85.0%	33.1%	15.0%	35.6%
South and islands	10,309,950	11.4%	84.0%	11.1%	16.0%	12.9%
Total loans to customers	**90,742,682**	**100.0%**	**85.9%**	**100.0%**	**14.1%**	**100.0%**

[4] For details on the characteristics of the mutual banking system, see Chapters 2 and 5.
[5] Small and medium-sized enterprises (SMEs) are those with revenues of less than €50 million.

In terms of the economic segment of the borrowers, in addition to consumer households, the segments that saw the greatest lending were real estate, manufacturing, wholesale and retail trade, and services. It should be noted that 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 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.

Economic segment of borrowers	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
Consumer households	31,060,322	34.2%	92.8%	37.0%	7.2%	17.5%
Primary sector	5,079,477	5.6%	89.2%	5.8%	10.8%	4.3%
Manufacturing	12,600,930	13.9%	86.1%	13.9%	13.9%	13.7%
Wholesale and retail trade	9,683,547	10.7%	85.6%	10.6%	14.4%	10.9%
Real estate and construction	15,189,762	16.7%	66.1%	12.9%	33.9%	40.4%
Services and other	12,152,919	13.4%	87.0%	13.6%	13.0%	12.4%
Government entities	758,091	0.8%	99.6%	1.0%	0.4%	0.0%
Financial companies	4,217,635	4.6%	97.7%	5.3%	2.3%	0.8%
Total loans to customers	**90,742,682**	**100.0%**	**85.9%**	**32.7%**	**14.1%**	**100.0%**

The particular business model, featuring a prevalence of medium and long-term lending to households and small businesses, is responsible for the high rate of collateral-backed lending. Specifically, 70% of impaired positions are backed by collateral, a figure that goes hand in hand 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	NPL Ratio	Ratio to total NPL
Collateral	58,544,304	64.5%	84.6%	63.5%	15.4%	70.7%
Unsecured guarantees	14,634,362	16.1%	88.8%	16.7%	11.2%	12.8%
No guarantee	17,564,016	19.4%	88.0%	19.8%	12.0%	16.5%
Total loans to customers	**90,742,682**	**100.0%**	**85.9%**	**100.0%**	**14.1%**	**100.0%**

Equity investments, totaling €140 million, mainly represent interests in associates and include investments in BCC Vita (49%), Satispay (16%), Car Server (19%), and BCC Assicurazioni (49%).

Property and equipment, totaling €2.8 billion, mainly includes property used in operations (€2.1 billion) as well as properties transferred to consolidated real estate investment funds.

€/thousands	Used in operations	Investment property	Other
Owned assets	1,868,652	671,452	-
Lands and buildings	*1,647,008*	*671,452*	
Furnishings	*60,922*		
Other	*160,721*		
Right-of-use assets under leases	263,334	7,324	-
Lands and buildings	*247,214*	*7,324*	
Furnishings	*894*		
Other	*15,226*		
Inventories	-	-	5,933
Property and equipment	**2,131,986**	**678,776**	**5,933**

With regard to intangible assets, goodwill (€52.8 million) largely relates to the acquisition of bank assets and liabilities by affiliated banks prior to establishment of the Group. Other intangible assets refer mainly to user licenses and software.

€/thousands	Definite life	Indefinite life
Goodwill		52,781
Other intangible assets	58,539	22,993
Intangible assets	**58,539**	**75,774**

Tax assets total €2.2 billion and include current taxes of €0.5 billion and deferred tax assets of €1.7 billion, the latter of which includes €1.3 billion in respect of Law 214/2011.

Consolidated liabilities and equity

€/thousands	30/6/2019	1/1/2019 PF
Financial liabilities measured at amortized cost	137,029,971	135,904,179
a) due to banks	20,805,129	
b) due to customers	98,825,018	
c) securities issued	17,399,824	
Financial liabilities held for trading	337,234	266,203
Financial liabilities designated as at fair value and hedging derivatives	407,958	111,983
Liabilities associated with assets held for sale	-	20,369
Provisions for risks and charges and termination benefits	762,118	737,120
Tax liabilities	88,306	80,990
Other liabilities	2,512,648	3,244,131
Shareholders' equity	10,195,163	9,807,507
Total liabilities and equity	**151,333,398**	**150,172,481**

Amounts due to banks show a balance of €20.8 billion, €18.4 billion of which is attributable to loans obtained from the ECB (TLTRO II), with €2.4 billion being other amounts due to banks outside the Group for current accounts, deposits, and repurchase agreements.

€/thousands	30/6/2019
Due to central banks	18,395,277
Due to banks	2,409,852
Current accounts and demand deposits	*675,022*
Time deposits	*276,581*
Loans and repurchase agreements	*2,737,154*
Other	*166,244*
Financial liabilities measured at amortized cost – Due to banks	**20,805,129**

Amounts due to customers totaled €98.8 billion. This figure includes €11.5 billion in repos, almost all of which (€11.3 billion) established by Iccrea Banca with the Cassa Compensazione & Garanzia (CC&G).

Direct funding from ordinary customers, excluding the aforementioned repos with institutional counterparties and including the component of outstanding debt securities (bonds and certificates of deposit), totaled about €105 billion.

€/thousands	30/6/2019
Current accounts and demand deposits	77,769,206
Time deposits	6,737,075
Loans	12,621,063
Repos	*11,535,937*
Other	*1,085,126*
Lease payables	264,214
Other payables	1,433,460
Financial liabilities measured at amortized cost – Due to customers	**98,825,018**

During the second half of 2019, approximately €1.7 billion in bond issues by the Group are scheduled to come to maturity, while in 2020 and 2021, around €2.9 and €3.1 billion will reach maturity. The 2019-2021 funding plan calls for the substantial renewal of structural funding coming to maturity, mainly through bond issues and structured finance operations.

€/thousands	30/6/2019
Bonds	11,872,620
Other securities	5,527,204
Financial liabilities measured at amortized cost – Securities issued	**17,399,824**

Financial liabilities held for trading include the negative fair value of trading derivatives, while liabilities designated at fair value and hedging derivatives includes €388 million of hedging derivatives.

Tax liabilities, totaling €88.3 million, include €74.1 million in deferred tax liabilities on temporarily non-taxable revenue.

Other liabilities amounted to approximately €2.5 billion, mainly including €584 million in amounts available to customers, €463 million of items being processed, transit items and illiquid items, €257 million of taxes payable for withholdings made and amounts to be paid, as well as €127 million in trade payables.

Post-employment benefits for the Group totaled €324 million (excluding the component paid into pension funds) while the provision for risks and charges, totaling €438 million, includes provisions for credit risk in the amount of €184 million in respect of commitments to disburse funds and financial guarantees issued.

Consolidated shareholders' equity

Consolidated shareholders' equity totaled €10.2 billion. Share capital includes the capital of the Parent Company, amounting to €1.4 billion, and the capital of the mutual banks, which, together, constitute a single consolidating entity. Treasury shares represent the capital of Iccrea Banca held by the affiliated banks consolidated in application of Article 1072 of Law 145/2018.

Reserves, totaling €8.4 billion, include legal reserves of €9.8 billion and a negative IFRS 9 reserve of €1.6 billion.

The Iccrea Cooperative Banking Group closed the first half of 2019 with net profit of €178.6 million.

€/thousands	30/6/2019	1/1/2019 PF
Capital	2,315,758	2,068,259
Capital instruments	30,140	30,140
Share premium reserve	146,014	148,084
Treasury shares	(1,091,340)	(841,139)
Valuation reserves	171,453	(44,841)
Reserves	8,366,489	8,372,676
Profit/(loss) for the period (+/-)	178,619	
Equity pertaining to shareholders of the Parent Company	**10,117,133**	**9,733,179**
Equity pertaining to non-controlling interests (+/-)	**78,030**	**74,328**
Total shareholders' equity	**10,195,163**	**9,807,507**

THE INCOME STATEMENT

Consolidated income statement

€/thousands	30/6/2019
Net interest income	**1,218,173**
Net fee and commission income	**606,023**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	44,070
Net gain/(loss) on disposals	91,786
Gross income	**1,960,051**
Net writedowns/writebacks for credit risk	(261,956)
Net income/(loss) from financial operations	**1,698,095**
Administrative expenses	(1,522,099)
a) personnel expenses	(826,810)
b) other administrative expenses	(695,288)
Depreciation, amortization and provisions	(94,730)
Other operating expenses/income	158,412
Operating expenses	**(1,458,852)**
Profit/(loss) from equity investments	2,948
Net gain/(loss) from fair value measurement of property and equipment and intangible assets	(13,888)
Profit/(loss) from disposal of investments	**3,180**
Profit/(loss) before tax on continuing operations	**231,919**
Income tax expense from continuing operations	**(50,540)**
Profit/(Loss) for the period	**181,379**
Net profit/(loss) pertaining to non-controlling interests	**2,760**
Net profit/(loss) pertaining to the Group	**178,619**

Gross income amounted to about €2 billion.

In particular, net interest income 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) and interest expense of €0.3 billion, mainly relating to amounts due to customers and securities issued.

€/thousands	Debt securities	Loans	Other transactions	30/6/2019
Financial assets measured at fair value through profit or loss	4,658	2,307	356	7,320
Financial assets measured at fair value through other comprehensive income	37,628	-	-	37,628
Financial assets measured at amortized cost	186,191	1,235,500	-	1,421,691
Other assets	-	-	1,047	1,047
Financial liabilities	-	-	-	58,133
Interest income and similar revenues	**228,477**	**1,237,806**	**1,403**	**1,525,819**

€/thousands	Payables	Securities	Other transactions	30/6/2019
Financial liabilities measured at amortized cost	(129,943)	(132,818)	-	(262,761)
Financial liabilities held for trading	-	-	(87)	(87)
Financial liabilities designated as at fair value	(132)	(544)	-	(676)
Other liabilities and provisions	-	-	(564)	(564)
Hedging derivatives	-	-	(23,583)	(23,583)
Financial assets	-	-	-	(19,975)
Interest expense and similar charges	**(130,075)**	**(133,362)**	**(24,234)**	**(307,646)**

Net fee and commission income amounted to €0.6 billion 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 €0.1 billion.

€/thousands	30/6/2019
Guarantees issued	13,574
Management, intermediation and advisory services	156,405
Collection and payment services	122,306
Servicing services for securitization transactions	1,884
Services for factoring transactions	2,044
Management of current accounts	246,508
Other services	158,535
Fee and commission income	**701,256**

€/thousands	30/6/2019
Guarantees received	(1,326)
Management and intermediation services:	(6,584)
Collection and payment services	(21,799)
Other services	(65,524)
Fee and commission expense	**(95,233)**

The net gain on disposals came to €91.8 million, the net effect of net capital gains deriving from the sale of debt securities in the portfolio and losses on the sale of non-performing loans.

€/thousands	Gains	Losses	Net gain/(loss)
Financial assets measured at amortized cost	74,668	(13,140)	61,529
Financial assets measured at fair value through other comprehensive income	45,234	(15,966)	29,268
Securities issued	1,873	(884)	989
Net gain/(loss) on disposals/repurchases	**121,775**	**(29,990)**	**91,786**

Net adjustments for credit risk came to €261.9 million, attributable to provisions and net losses on impaired loans in the amount of €300 million and total net writebacks on performing loans in the amount of €36 million.

Operating expenses, totaling €1.5 billion, are attributable to:

- personnel expenses in the amount of €827 million;
- other administrative expenses in the amount of €695 million, as summarized in the table below.

€/thousands	30/6/2019
IT costs	(103,545)
Costs for real estate and other property	(42,247)
Costs for the purchase of goods and non-professional services	(83,226)
Costs for the purchase of professional services	(122,752)
Advertising and agency expenses	(32,082)
Association dues	(52,766)
Charitable donations	(2,368)
Indirect taxes and duties	(177,522)
Other	(78,780)
Other administrative expenses	**(695,288)**

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table provides a breakdown of own funds at June 30, 2019.

Capital and capital ratios – €/million	30/06/2019
Share capital	2,316
Share premium reserve	146
Treasury shares and repurchase commitments	(1,108)
Reserves	8,622
Profit/(Loss) for the period*	-
Other components of other comprehensive income	(84)
Transitional provisions	1,383
Goodwill	(52)
Deductions – deferred tax assets	(66)
Intangible assets	(81)
Prudential filters	(13)
Minority interests	31
Common Equity Tier 1 (CET1 ratio)	**11,094**
Additional Tier 1 (AT1)	36
Tier 1 (T1)	**11,130**
Eligible subordinated loans (non-controlling interests)	178
Tier 2 (T2)	**178**
Total Capital (TC)	**11,308**

* For the purposes of calculating own funds, profit for the period of €179 million, calculated on the prudential consolidation area, was not considered, given than ECB authorization pursuant to Regulation (EU) 656/2015 was not requested.

The quality of own funds as at June 30, 2019, totaling €11.3 billion and made up almost entirely of tier 1 capital, reflects the particular capital structure of the mutual banks given that, based on the special legislation for their industry segment, they allocate a large majority of annual earnings to reserves.

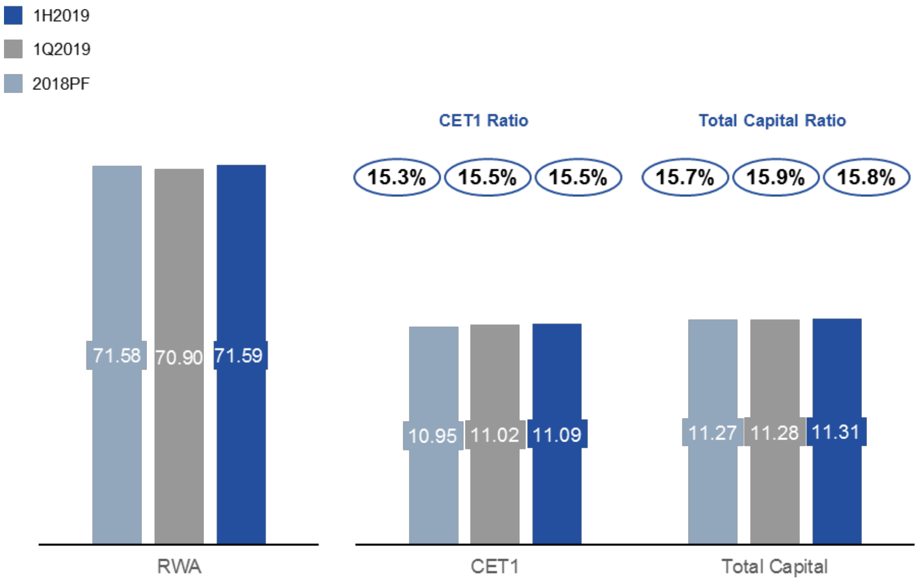
Common Equity Tier 1 (CET1) at June 30, 2019, in the amount of about €11,093 million, includes €1,383 million related to the prudential phase-in introduced by Regulation (EU) 2017/2395 in order to mitigate the effect on the own funds of banks of application of the new expected loss impairment model under IFRS 9. Of this total, €1,314 million is attributable to the affiliated banks, with the remaining €68 million being attributable to the other banks of the Group. These transitory effects will be gradually absorbed by 2022 based on the progressive, non-linear adjustments called for under the regulation.

Capital adequacy

The following chart shows the main capital ratios (the CET1 ratio and the total capital ratio)[6] and the value of risk weighted assets (RWAs) for the ICBG for the first quarter of 2019, the first half of 2019, and the pro-forma figures for 2018.

The increase in RWAs for the period is mainly due to adoption by the affiliated banks of the interpretations and approaches of the Parent Company for the classification of exposures related to the prudential definition of "speculative immovable property financing". At June 30, 2019 this led to inclusion in the portfolio of positions exposed to particularly high levels of risk – weighted at 150% – of exposures totaling some €2.1 billion that previously had an average risk density of around 97%.

[6] As mentioned, own funds at June 30, 2019, do not include net profit for first half of the year, as this will only be considered following certification of the interim consolidated financial statements and completion of the related authorization process, which will have a positive impact of around 25 bps on the total capital ratio.


1H2019
1Q2019
2018PF
CET1 Ratio
Total Capital Ratio
15.3%
15.5%
15.5%
15.7%
15.9%
15.8%
71.58
70.90
71.59
10.95
11.02
11.09
11.27
11.28
11.31
RWA
CET1
Total Capital

4. SIGNIFICANT EVENTS DURING THE FIRST HALF OF 2019

Increase in capital for Iccrea Banca SpA

Effective as of April 4, 2019, Iccrea Banca completed its paid increase in capital reserved for shareholders with the full subscription of the 4,840,272 new ordinary shares with ordinary rights and a per-share issue price of €51.65 (equal to its par value), for a total of €250,000,048.80, in execution of the shareholder resolution of January 10, 2019. Applications to exercise option rights, granted in accordance with Article 2441 of the Italian Civil Code, were greater than the number of shares on offer.
Nearly all of the capital was subscribed by the affiliated banks.
In addition to better ensuring adequate capital ratios, this additional capital will go towards further supporting the process of rationalizing the organizational structure and revising the business model of Iccrea Banca, in line with the historical nature and mission and with the new role of the bank.

Early Warning System

In 2018 and the first half of 2019, within the scope of efforts to launch the ICBG and as an essential prerequisite relating to the evaluation process that resulted in the ECB authorizing the creation of the Group, the Parent Company completed work to define and implement the early warning system (EWS) and to make operational the provisions of internal regulations and implement the cohesion contract with regard to the system of cross-guarantees. The early warning system, in particular, is the tool established to monitor the organization and the financial performance and standing of the affiliated banks and is made up of a set of principles, rules, assessment areas, indicators, and mechanisms of classification and interaction between the Parent Company and the affiliated banks, along with the actions that can be taken by the Parent Company in order to effectively exercise the powers of control, intervention, and sanctioning of the affiliated banks in relation to their levels of risk.

The overall set of documentation concerning the EWS, which establishes the model of governance (i.e. roles and responsibilities), the key elements, and related procedures and methods of operation, was produced and approved by the Parent Company and has been provided to the affiliated banks for adoption.

The established framework was then tested in 2018 within the broader scope of projects aimed at establishing the ICBG. The results of these tests provided valuable input and feedback that helped the affiliated banks to trigger a virtuous circle of re-balancing and de-risking, coordinated by the Parent Company, concerning specific segments of operations.

The outcome of this initial application of the early warning system points, within the affiliated banks, to an overall situation of financial, capital and operational equilibrium, although there are certain cases of affiliated banks that present limited, not severe imbalances in specific segments of operations. Discussions with the Parent Company aimed at the accurate determination and timely implementation of the measures needed to resolve the issues encountered, based on target strategies of de-risking and, in certain cases, bank mergers have been directed to these affiliated banks.

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

Activation of the Guarantee Scheme and establishment of the readily available funds

During the first half of the year, the funds underlying the Guarantee Scheme, the "readily available funds" in the form of a predetermined Ex Ante Quota established with the Parent Company and a portion that can be called in by the Parent Company if needed (the Ex Post Quota), were determined and established.

In order to quantify the total amount of these readily available funds, in application of the previsions of the cohesion contract, the Parent Company conducts tests aimed at determining the amount needed even under situations of stress.

Calculations for the readily available funds for financial year 2019 resulted in an amount of €1,339.6 million as follows:

- an Ex Ante Quota of €504.5 million;
- an Ex Post Quota of €835.1 million.

The Ex Ante Quota of the readily available funds has been established by way of financing for a specific transaction (in accordance with Article 2447 of the Italian Civil Code) and was completed based on a financing agreement signed by the Parent Company and the affiliated banks on March 29, 2019. The Ex Ante Quota of the readily available funds was established on April 15, 2019, with disbursement of the financing by the mutual banks to the Parent Company in the amount of €419.6 million and payment of the Parent Company's portion in the amount of €85 million.

Management of the financing for the specific transaction as at June 30, 2019, in the absence of intercompany support measures, is presented below by way of the separate reporting schedules within the separate financial statements of the Parent Company in accordance with the provisions of the Civil Code and the related accounting standards.

More specifically, assets include about €17 million in cash and cash equivalents held at the central bank and Euroclear and €492 million in investment-grade debt securities. The 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.

€/thousands	30/6/2019
Cash and cash equivalents	15,516
Financial assets measured at fair value through profit or loss	492,359
b) financial assets designated as at fair value	492,359
Financial assets measured at amortized cost	1,438
a) due from banks	1,438
Total assets the separate balance sheets	**509,314**

The following table shows the opening, by individual government counterparty and/or type of debt securities that make up the portfolio, measured at fair value in line with applicable accounting standards.

Country/Instrument Type	30/6/2019
Italy	151,927
Spain	101,443
France	58,322
Germany	56,480
Belgium	14,447
Ireland	10,590
Netherlands	3,070
Finland	1,843
Austria	1,535
Supranational	50,613
Covered bonds	42,088
Total	**492,359**

Liabilities are largely financial liabilities measured at fair value and related to the value of the Ex Ante Quotas attributable to the affiliated banks (€419.6 million), adjusted taking account of the results of management of the special-purpose financing at June 30, 2019. The increase in the value of these units (about €4 million) is due to the result from the half-year report.

Other liabilities refer to the *Ex Ante Quota* attributable to the Parent Company (about €85 million), which is also adjusted based on the proportional allocation of the result of management of the financial liability at June 30, 2019 (€0.8 million).

Liabilities – €/thousands	30/6/2019
Financial liabilities designated as at fair value	423,550
Other liabilities	85,764
Total liabilities from the separate balance sheets	**509,314**

The report for the period shows a gain of about €4.8 million, which contributes to the consolidated profit for the Group. Based on the contracts signed, this gain has been allocated to the participants in the Guarantee Scheme based on their respective shares (about €4 million to the affiliated banks participating in the special-purpose financing and about €0.8 million to Iccrea Banca).

	30/6/2019
Interest income and similar revenues	713,083
Interest expense and similar charges	(38,176)
Net interest income	**674,907**
Net fee and commission income	**(14,023)**
Net result on other financial assets and liabilities measured at fair value through profit or loss	4,118,250
Overall result of the transaction	**4,779,134**
Allocation to the affiliated banks (change in fair value of financing)	3,974,393
Allocation to the Parent Company (change in fair value of assets and liabilities)	804,740
Result for the period post-allocation	**0**

The Ex Post Quota of the readily available funds was established in April with the signing of an irrevocable commitment by the affiliated banks in favor of the Parent Company by way of opening a specific securities-backed line of credit that ensures a constant amount of readily available liquidity. The Parent Company, for its share of the Ex Post Quota, in the amount of €31.7 million, committed securities to the portfolio dedicated to the Guarantee Scheme.

Group policy concerning the Guarantee Scheme calls for the funds of the Ex Ante Quota to be invested by Iccrea Banca – based on investment policies approved by the company's Board of Directors – in highly liquid assets of limited risk and adequately diversified in order to pursue the objective of the conservation of capital and the ready availability of funds for the implementation of guarantee measures. Therefore, the investment was made solely in debt instruments with a yield to maturity of at least the overnight rate set by the European Central Bank and included within the "eligible universe" of securities, i.e.: supranational, euro-area government bonds; covered bond; ABS; Eurosystem deposits; and financial derivative instruments solely for hedging purposes.

The Parent Company has defined and activated the process of monitoring the collateral capacity provided by the affiliated banks in order to guarantee the availability of the ex post funds and has also established differentiated rates of return based on the type of funding need assigned and generated (both ex ante and ex post), as approved by the Parent Company's Board of Directors and communicated to all affiliated banks.

The process of determining the readily available funds for 2020 began in June and will be completed in October 2019. By the end of the current year, the Parent Company will then notify the affiliated banks of their updated Ex Ante and Ex Post Quotas.

No support measures were implemented under the Guarantee Scheme either during the first half of the year or as of the date of this report.

Change in the securities portfolio business models

In conjunction with the transition to IFRS 9 and first-time application of the new rules and policies for the classification of financial assets, the mutual banks adopted business models underlying the securities portfolio defined based on their own allocation strategies.

Having begun this process well in advance of the creation of the Group, the underlying assessments were conducted on a standalone basis.

Following creation of the ICBG, and for the effective functioning of the architecture on which it is based, the start of operation of the Guarantee Scheme and of the EWS introduced new paradigms concerning free capital, based on which the affiliated banks were required to verify (and reassess as necessary) their allocation strategies. Indeed, given the regulatory definition of capital in excess of adequacy requirements, the EWS has introduced: (i) capital buffers to cover guarantee obligations; and (ii) capital thresholds to cover the impact of situations of stress or, at minimum, the guarantee obligations, any consolidated capital adequacy requirements, and Pillar Two Guidance.

More specifically, the EWS calls for careful assessment of the allocation of available capital as a result of investment decisions oriented around the HTCS business model (with indicators specifically designed for related investments in terms of the maximum amount of free capital that can be absorbed by potentially unfavorable fluctuations in investment value).

IFRS 9 states that changes to the business model may only be made in rare circumstances following internal or external changes with a significant impact on company operations (and which are demonstrable to third parties) and must be decided by senior management.

The creation and launch of the ICBG fully met these conditions of discontinuity and of rarity, resulting in the need to assess whether to maintain or adjust the previously adopted business models.

In December 2018, following the final shareholder resolution that determined participation in the ICBG and the Parent Company's determination of the EWS impact of the volatility of the capital levels in response to the trend in the value of the financial assets in the HTCS portfolio, the affiliated banks reassessed their past decisions in terms of both respecting the sustainability thresholds set by the EWS and setting targets for the allocation of available capital to the various business segments (and in particular to the HTCS business model). They then passed related resolutions.

In accordance with the financial reporting standard, the change to the objective of the business model takes effect from the first day of the following reporting period. In this specific case, the decision to make changes to the business models took place in December 2018 by way of a resolution of the Board of Directors. The consequent reclassifications were then recognized by the affiliated banks on January 1, 2019.

Of the 142 mutual banks participating in the ICBG as at December 31, 2018, 71 approved the reconfigurations to the business models of their financial portfolios in December 2018, consequently reclassifying some €4 billion in securities from the HTCS business model to the HTC model, bringing the balance of the HTCS (investment) portfolio from €14.9 billion at December 31, 2018, to €11.2 billion at January 1, 2019 (while the strategic HTC portfolio went from €31.1 billion to €34.8 billion).

Refinement of the organizational model and definition of the mechanisms for exercising the Parent Company's management and coordination role

During the period following creation of the ICBG, the organizational structure of the Group underwent a process of further fine tuning to bring it closer to the target model, which, within the Parent Company, essentially involved the structure of the areas of the Chief Human Resources Officer, the Chief Operating Officer, the Chief Financial Officer, and the Chief Risk Officer.

During the same period:

- the Lending Committee was created as the intercompany body responsible for lending and for the assessment of initiatives aimed at improving the overall quality of the loan portfolio. This committee advises the Parent Company on issues of strategic importance and on issuing lending policies for the Group and issues opinions on operations in line with the lending policies issued by the Parent Company;
- the rules and composition of the Executive Committee, the Finance Committee and the Committee for Security, Data Protection & Business Continuity were updated.

Finally, the Parent Company issued the primary internal rules for the ICBG with the primary goal of defining the mechanisms underlying the performance of its management and coordination duties, as well as of progressively implementing interpretive, methodological and operational frameworks for the companies within the perimeter of that management and coordination with a view to process standardization (in the areas of governance and operations). Within the scope of the broader, long-term framework, these rules first focused on high-priority areas related to the system of internal controls and the most important areas of operations and oversight.

The Parent Company's role of management, coordination and control as defined in the cohesion contract hinges upon the use of various mechanisms, including:

- directives, used to issue binding provisions either for all companies of the ICBG or for certain specific companies;
- recommendations, used to provide non-binding guidance of a specific nature and aimed at individual affiliated banks;
- authorizations to execute transactions of strategic importance and opinions regarding specific issues of importance;
- the issuance of clarifications concerning issues that are the object of directives;
- functional hierarchies and inter-functional relations as the mechanism of collaboration, coordination and supervision that the Parent Company needs in order to exercise its powers of management and coordination in the areas specified in the Group's regulations;
- local assemblies and intercompany operating committees responsible for harmonizing guidance and synchronizing the lines of intervention with the Group's strategies and objectives.

As mentioned earlier, compliance with the measures of the Parent Company is ensured by a risk-based approach to control and intervention proportional to the risk levels of the affiliated banks. The output of the EWS guides determination of the proper point of equilibrium for each bank in exercising both the Parent Company's powers and influence over the banks and the autonomy of the banks themselves.

Definition and implementation of ICBG commercial and marketing strategies

In the first half of 2019, the Parent Company established the guidelines for the evolution of the service model and the network of affiliated banks, calling for a path of transition towards a model of specialized relationship management. To this end, two main areas of development have been identified:

- an offering based on high-value advisory services that call for experts with strong relationship skills dedicated to both Savings & Investment customers (Affluent, Wealth, and Private Banking, with an emphasis on Insurance Services) and SME, Business and Corporate accounts;
- a development of branch services by enhancing the automation of transaction services (including advanced ATMs and in-branch self-service kiosks).

Within this context, a plan of gradual implementation has been defined for the affiliated banks, both on a voluntary basis and as a remediation plan for banks showing critical issues following adoption of the EWS.

In order to support this evolution, specific projects have also been launched, including:

- the bancassurance project with the scope of designing the commercial support structures for the affiliated banks. In order to support the growth and modernization of business, the Group has set the strategic priority of developing the insurance 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 way of local commercial and operational offices;

- the wealth management 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 new business model is aimed at customers who need greater sophistication in service levels by activating a private-banking model that is able to accommodate new flows of customer funding in line with the developed segmentation, while taking advantage of the relationship of trust and the focus on local business that have historically characterized the mutual banks;
- 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, activating 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. This is to be gradually implemented with all affiliated banks, beginning with the pilot banks, beginning mid-2020.

NPE reduction

As part of work to create and launch the cooperative banking group and within the broader scope of the plan to improve asset quality (which was defined and reported to the ECB when requesting authorization for the Group), extraordinary asset disposals were planned in order to reduce the level of non-performing exposures (NPEs) by a total of some €7.3 billion over the period 2018-2020.

This goal of NPE reduction falls within the Group's overall strategy aimed at: *(i)* improving the NPE ratio by taking advantage of disposal opportunities that allow for a rapid reduction of the portfolio by prudentially deconsolidating bad debt at both the separate and consolidated levels; *(ii)* enhancing operational levers in order to optimize the management of NPEs through financial and industrial policies and centralized controls; *(iii)* enabling the affiliated banks and companies within the direct scope active in credit intermediation to focus more on the creation of value, while freeing up resources in order to generate new business.

The guidelines of the Parent Company on the reduction of non-performing exposures are embodied in the medium-term planning of the individual members of the ICBG (both banks of the direct scope and future affiliated banks), which, within the context of the initiatives of the strategic plan for the reinforcement of financial performance and standing and as concerns the overall portfolio of impaired exposures, have identified alternative scenarios to in-house management, scenarios based on the opportunity of selling off even significant components of the portfolio to the market over the next two to three years for amounts that, on the whole, are in line with those specified above.

In conjunction with first-time application of IFRS 9, and within the scope of the forward-looking approach required for the measurement of loans, the incorporation of sale scenarios (which in the past, under IAS 39, were not considered for accounting purposes) has pointed to a significant difference in the quantification of the expected losses on these loans. In line with applicable accounting standards, this difference has been recognized on the balance sheet (with a corresponding entry in FTA reserves) and benefits, together with the increased adjustments related to performing loans, from the 5-year prudential phase-in period required by Regulation (EU) 2017/2395, which introduced measures to mitigate the impact of the impairment model of IFRS 9 on the capital of banks.

The program of reducing NPEs reached an initial major milestone in 2018, significantly ahead of schedule, by disposing of a particularly significant amount of NPEs through both standalone and multi-originator operations coordinated by the Parent Company.

Of particular note among the most significant multi-originator operations coordinated by the Parent Company was, first and foremost, the execution, in 2018, of two securitizations of GACS-backed non-performing loans (GACS is a government guarantee scheme).

With the first of these transactions ("GACS I") completed in July 2018, 21 affiliated banks and two other banks of the Group carried out the non-recourse assignment of a portfolio of bad debts with a total value of over €1 billion to a securitization vehicle ("BCC NPLs 2018") established in accordance with Law 130/99. This special-purpose vehicle financed the purchase of the loans by issuing three tranches of asset-backed securities (ABS): senior securities, rated Baa3 and BBB by Moody's and Scope Limited, respectively, in the amount of €282 million, subscribed by the sellers and eligible for the state guarantee; mezzanine securities, rated Caa2 and B+ by the same two agencies, in the amount of €31.4 million; and unrated junior securities in the amount of about €10.5 million. The mezzanine and junior tranches have been placed on the market (net of the 5% needed for the seller to comply with the retention mechanism required by applicable legislation).

A total of 73 Group banks (including 71 affiliated banks) participated in the second GACS-backed securitization transaction, which concerned a portfolio of bad debts with a total value of about €2 billion, sold to a securitization vehicle ("BCC NPLs 2018-2") established in accordance with Law 130/99. This special-purpose vehicle issued three tranches of asset-backed securities (ABS): senior securities, rated BBB low and BBB by DBRS and Scope Limited, respectively, in the amount of €478 million, subscribed by the sellers and eligible for the state guarantee; mezzanine securities, rated CCC and B+ by the same two agencies, in the amount of €60.1 million; and unrated junior securities in the amount of about €20 million. Here, too, the mezzanine and junior tranches have been placed on the market (net of the 5% needed for the seller to comply with the retention mechanism).

Both of these transactions permitted derecognition of the exposures in accordance with the IAS/IFRS accounting standards and with the provisions of the CRR. The senior securities subscribed by the seller are guaranteed by the state.

In 2018, in coordination with the Parent Company, four other non-recourse assignments of non-performing, unsecured loans issued by a number of Group banks and companies for a total of about €94 million were also carried out.

Together with the transactions executed autonomously by the companies and the positive performance for the year, as compared with the goal for reducing NPEs in 2018 from €17.2 billion to €15.9 billion, the year-end figure actually reached €13.1 billion.

In the first half of 2019, further standalone assignments contribute to a further reduction in impaired exposures to €12.8 billion at June 30, 2019.

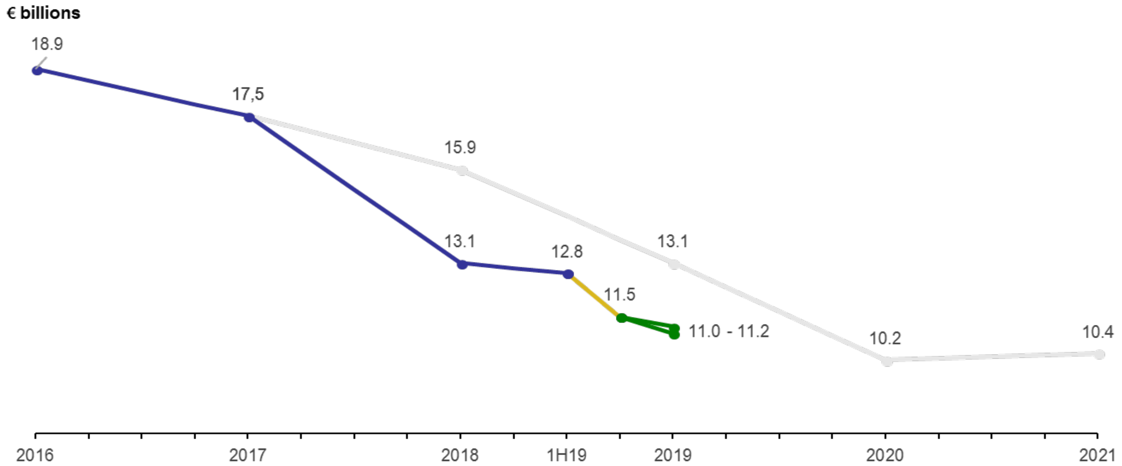
In 2019, continuing with implementation of the de-risking program aimed at significantly reducing the Group's NPEs, the ICBG began execution of another multi-originator securitization transaction to be completed by the end of the year and concerning multiple portfolios of mortgage-backed or unsecured loans to non-performing borrowers ("GACS III").

This transaction will be able to be backed by GACS and, in line with industry best practice for similar transactions and with the previous two transactions (i.e. "BCC NPLs 2018" and "BCC NPLs 2018-2"), calls for the non-recourse assignment of the loans to a securitization vehicle established in accordance with Law 130/1999. The special-purpose vehicle will finance payment of the assignment by issuing three classes of asset-backed securities, the senior and mezzanine of which will be rated and backed by the Italian state. The junior tranche will not be rated. In order to meet the requirements for prudential de-recognition of the bad debts both at the consolidated level and at the separate level for each seller, the mezzanine and junior tranches are to be placed on the market for third-party investors independent from the ICBG (while retaining at least 5% of the nominal value in order to comply with the retention rule).

In addition to the Parent Company, Iccrea Banca SpA, 65 mutual banks (45 of which also participated in the previous transactions) and two companies within the direct scope, i.e. Iccrea Banca Impresa and Banca Sviluppo, will be participating in this transaction. Although, based on the provisional numbers (given that data remediation and definition of the final portfolio are still under way), the transaction will involve some 16,000 exposures and more than 8,000 borrowers, for a total exposure currently estimated at about €1.4 billion (€1.2 billion of which related to exposures with the 65 participating mutual banks).

There is one more non-recourse assignment of non-performing loans, both with no guarantee or and backed by collateral or unsecured guarantees, that is currently under way and falls within the scope of the ICBG's de-risking efforts. This transaction, which, based on the interest expressed, could concern a portfolio of bad debt with a total value of between €300 and 500 million, would result in a further reduction in the total value of NPEs and bring the Group's NPE ratio to an estimated 11.8% (or 11.6% under the second assignment scenario).

The chart below shows developments in the gross value of NPEs as per the program released in conjunction with the request for ECB authorization to create the Group and the reductions already achieved, as well as forecasts for after the transactions currently under way are completed (under the two scenarios of the potential final portfolio of assignments described above).



PLANNING RELATING TO THE EVOLUTION OF THE REGULATORY ENVIRONMENT

With regard to the evolution of the regulatory framework, it should first of all be noted that there has been a change in the significance attributed to the affiliated banks, in implementation of the ECB's decision of 18 April 2019 which, in accordance with Article 40(2) of Regulation (EU) No 2014/468 (ECB/2014/17), establishes that each of the supervised entities forming part of the supervised Group shall be deemed to be a significant supervised entity.

More specifically, the measures taken by the ICBG in relation to primary regulatory developments, in order to achieve organizational and procedural compliance, are described below.

Insurance Distribution Directive (IDD)

In complying with Directive (EU) 2016/97 on insurance distribution (Insurance Distribution Directive - IDD), the Parent Company prepared guidelines and established organizational measures for the Group to enable it to manage the activities connected with the distribution of insurance products. The framework initially developed in the course of planning begun in 2018 was revised and strengthened following the formation of the ICBG, in the context of the Parent Company's exercise of management, coordination and control activities.

In this regard, interpretive guidelines and operating instructions were provided to the ICBG companies authorized to engage in insurance mediation in order to comply with the timing and procedural requirements for sending the insurance supervisory authority (IVASS) information on holdings and close links, as provided by IVASS Order No 84 of 13 February 2019.

Payment Services Directive (PSD2)

On July 1, 2019 the Bank of Italy's measure of March 19, 2019 came into force. It amends the provisions concerning "Transparency in banking and financial operations and services. Fair dealing between intermediaries and customers". The measure implements the provisions of Directive (EU) 2015/2366 (the Payment Services Directive 2 - PSD2), transposed into Italian law with Legislative Decree 218/2017, which aims to achieve greater harmonization of the rules existing in the various European countries, to promote the development of an efficient, secure and competitive internal retail payments market, to strengthen protection for users of payment services, to support innovation and to improve the level of security of electronic payment services. As stated in the act issuing the measure, the provisions on PSD2, governed by Section VI of therein, shall apply as of January 1, 2020.

Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 has applied since December 15, 2019. It amends Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the EU and currency conversion charges.

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 during the current year. These include: the management and forwarding to the supervisory authority of requests for exemption from the contingency mechanism ("fallback solution"), pursuant to Article 33(6) of Regulation (EU) 2018/389; the establishment of the process for reporting major operational and security incidents, as governed by the EBA Guidelines on major incident reporting, as well as the fraud reporting process as provided for in the EBA Guidelines on fraud reporting, in light of the 28th update of the Supervisory Provisions for Banks set out in Bank of Italy Circular No 285/2013.

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 ICBG 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/commercial areas and working towards credit processes, while leveraging the datasets and information available.

Transparency

Since July 16, 2019, the ECB's recommendations concerning the benchmark for European risk-free interest rates that replace EONIA and EURIBOR have been followed.

ESMA's Guidelines on non-significant benchmarks in accordance with Regulation (EU) 2016/1011 (Benchmarks Regulation – BMR) have been applied since August 19, 2019.

In assessing the burden and impact on the affiliated banks and to guide the harmonized application of the new rules, the Parent Company provided support for the process of adapting contracts with customers, working with the technical structures responsible for alignment with the new rules.

In addition, solutions are being developed, using contractual means that comply with Italian law, to handle the transition period for bringing existing benchmarks into line with the new rules.

The provisions of the above Bank of Italy Measure of March 19, 2019 concerning the implementation of the changes introduced by PSD2 regarding consumer credit, payment services and revolving credit cards, consumer protection (advertising, commercial practices and unfair terms) and the handling of complaints and the Banking and Financial Ombudsman have been in effect since July 1, 2019.

In response, Parent Company reviewed both the internal policies of the ICBG companies affected concerning the handling and forwarding of complaints, and the areas potentially vulnerable to complaint; it also prepared the relevant Group Policy.

Securities Financing Transactions (SFTR)

Article 4 of Regulation (EU) 2015/2365 on the transparency of securities financing transactions (Securities Financing Transactions - SFT) and of reuse, introduces a new reporting obligation requiring counterparties to SFTs to report the details of any SFT they have concluded, modified or terminated. These details must be submitted no later than the working day following the conclusion, modification or termination of the transaction. On April 11, 2019, Regulation (EU) 2019/356 specifying the details of SFTs to be reported to trade repositories and Regulation (EU) 2019/363 laying down implementing technical standards with regard to the format and frequency of reports on the details came into force. The date of application of the reporting obligation differs based on the type of counterparty (April 11, 2020 for investment firms and credit institutions; October 11, 2010 for insurance and reinsurance undertakings, collective investment undertakings and their management companies, alternative investment funds managed by AIFMs, and institutions for occupational retirement provision; January 11, 2021 for non-financial counterparties). Therefore, the Parent Company promptly began planning to establish guidelines and solutions to assist the ICBG companies that engage in SFTs in meeting this reporting obligation.

Central Securities Depositories Regulation (CSDR) - Settlement internaliser

Pursuant to Article 9 of Regulation (EU) 2014/909 on central securities depositories (CSDR), settlement internalisers must report on a quarterly basis to the competent authorities (Consob) the aggregated volume and value of all securities transactions that they settle outside securities settlement systems. On April 30, 2019, ESMA published its guidelines on internalized settlement reporting in accordance with said Article 9. The Parent Company has planned to define solutions to help the ICBG companies that qualify as settlement internalisers. In this context, for those companies that have so requested, the Parent Company acts as the subject appointed for payment. The first report was submitted in July.

Outsourcing

The EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02) introduced specific provisions on financial institutions' governance arrangements as they relate to outsourcing. The Bank of Italy, in its letter no. 1204957/18 concerning "Security and control measures for outsourced IT services or services provided by third parties", extended the requirement that suitable measures be adopted to ensure all the risks assumes are managed and controlled even to cases in which IT services are purchased from third parties that do not qualify as outsourcers.

Regarding this, the new "Group Policy on the Outsourcing of Corporate Functions and Critical ICT Services" is being finalized. It provides guidelines to be followed when outsourcing activities, processes, procedures or critical ICT services provided by third parties that do not constitute outsourcing. The activity was extended to mapping the decision tree, which is a framework for making decisions and categorizing outsourcing, and to establishing the process workflow for each category of service/outsourcing. Work is also being done on drafting detailed corporate regulations to govern the process.

Anti-money laundering

On April 8, 2019, the Bank of Italy issued "Provisions on the organization, procedures and internal controls for preventing the use of intermediaries for the purposes of money laundering and terrorist financing", in order to align national law with European legislation. The measure provides instructions on the requirements, procedures, control systems and the functions of the central contact point, in harmony with Commission Delegated Regulation (EU) 2018/1108, in addition to implementing the Joint Guidelines adopted on September 22, 2017 by the authorities ESMA, EBA and EIOPA under Article 25 of Regulation (EU) 2015/847 on information accompanying transfers of funds. Compliance with the provisions is to be completed by June 1, 2019, with the exception of some environments that are expected to be compliant by January 1, 2020.

With regard to changes in the relevant regulatory environment, the Parent Company updated its internal Group procedure documentation, after conducting a gap analysis of the impact of the new provisions, which involved the territorial AML units.

The changes that Legislative Decree 90/2017 made to the anti-money laundering legislation require, among other things, that periodic data and information identified on the basis of objective criteria concerning transactions that carry the risk of money laundering and terrorist financing be submitted to the Financial Intelligence Unit (FIU). The FIU's instructions published on March 20, 2019 concerning "objective reports" governs the new type of monthly reporting that will begin starting in September 2019, and is required of banks, Poste Italiane, payment institutions and electronic money institutions. In relation to this, the Parent Company is working with the responsible IT units to implement measures to ensure that reporting will begin on time and in the manner required.

SEPA Instant Payments

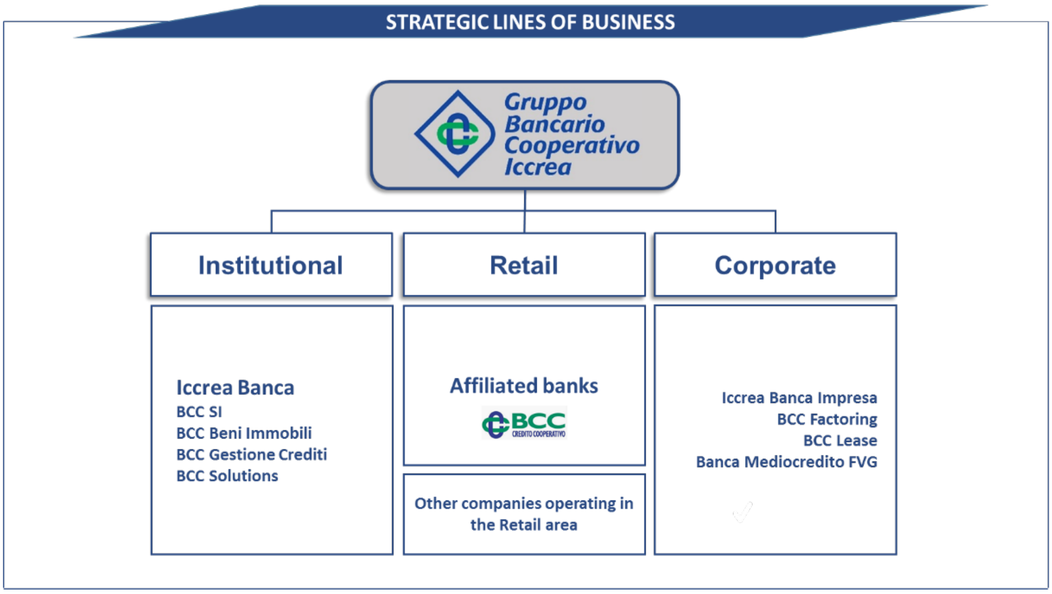
Within the context of the radical evolution underway in the area of payment services, the European Payments Council (EPC) established guidelines for the first pan-European instant payments scheme (SCT Inst). Under the umbrella of SEPA Instant Credit Transfers, Instant Payment is a service that is key 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 signal a leap forward in the quality of payment systems and will help businesses and institutions rationalize digital-migration processes. The upgrading undertaken by ICBG is at an advanced stage and the goal is to launch the service in the first few months of 2020.

Product governance

The Bank of Italy Measure of December 5, 2018 containing provisions implementing the EBA Guidelines on product oversight and governance arrangements for retail banking products prompted the Parent Company to undertake specific Product Oversight Governance (POG) planning. The need to act in response to the guidelines was married with the objective of establishing a shared and uniform way within the Group for managing business processes, while respecting the banks' autonomy in managing their own commercial offerings. The model was developed in collaboration with the Parent Company's functions involved in the relevant subject matter and a broad sample of the affiliated banks.

5. THE GROUP'S STRATEGIC LINES OF BUSINESS

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 mutual banking.

€/thousand	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	420,804	12,671,845	180,783	48,275,320	(7,351,684)	54,197,068
Due from banks	237,381	22,143,154	756,933	7,504,971	(25,498,941)	5,143,498
Loans to customers	8,698,887	4,787,111	1,501,786	70,523,097	(1,985,836)	83,525,045
Funding from banks	3,522,905	20,146,359	1,250,768	22,803,605	(26,918,508)	20,805,129
Funding from customers	1,225,705	12,982,394	1,037,862	83,919,325	(340,268)	98,825,018
Securities and other financial liabilities	4,028,533	6,441,308	125,501	13,772,848	(6,222,926)	18,145,264

€/thousand	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	88,064	13,944	32,961	1,067,986	15,219	1,218,173
Net fee and commission income	8,691	107,400	24,591	510,574	(45,233)	606,023
Other financial expense and income	(1,859)	99,637	7	97,863	(59,792)	135,856
Gross income	94,896	220,980	57,559	1,676,423	(89,807)	1,960,051
Net value adjustments	(37,394)	(619)	(1,892)	(222,051)		(261,956)
Net gains (losses) on financial operations	57,503	220,362	55,667	1,454,371	(89,807)	1,698,096
Operating expenses	(50,423)	(169,042)	(36,336)	(1,208,617)	5,984	(1,458,434)
Other costs and revenues	(1,159)	(8,649)	270	(1,221)	3,016	(7,743)
Profit/(loss) from continuing operations	5,921	42,671	19,601	244,533	(80,807)	231,918
Income tax for the period on continuing	(3,164)	808	(6,261)	(41,923)		(50,540)
Profit/(loss) for the period	**2,757**	**43,479**	**13,340**	**202,610**	**(80,807)**	**181,379**
Profit/(loss) for the period pertaining to noncontrolling	**(1,711)**	**3,184**	**1,287**			**2,760**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**4,468**	**40,295**	**12,053**	**202,610**	**(80,807)**	**178,619**

INSTITUTIONAL BUSINESS AREA

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 by applicable law and the cohesion contract - BCC Sistemi Informatici, BCC Solutions, Sinergia.

Iccrea Banca SpA

In the new structure of the Group, Iccrea Banca, following the signing of the cohesion contract by the affiliated banks, has taken on the duties and responsibilities relating to strategic and operational oversight, coordination and control and interacts with the supervisory authority.

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, was significantly affected by taking on the new responsibilities of its role and 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 services performed in the Finance area through which it provides to the Group companies and the affiliated banks, in particular, access to trading venues and OTC markets) and securities portfolio management services (trading and banking book); however, following the formation of ICBG, Iccrea Banca's role in relation to Group Finance was significantly redrawn in order to enrich the system of products and financial services offered and to strengthen the financial risk management system for the entire Group. This category of activity includes management of the Group's financial assets by defining and proposing investment strategies and liquidity and funding management, the activities and services provided regarding capital, the money market and hedging to ensure, under the new system of cross guarantees, monitoring of funding requirements – short and medium-long term – and the associated risks (interest rate, exchange rate, liquidity) at an individual and consolidated level, as well as maintaining a consistent level of optimal structural liquidity, in the normal course of business and under stress conditions.

On the operational side, with regard to liquidity management, in 2019 the affiliated banks continued to take advantage of collateralized funding, through operations both with the ECB and with market counterparties. Iccrea Banca has maintained the auctions of the T-LTRO II program for a total of around €13 billion and is preparing to participate in TLTRO III, with repayment of T-LTRO II, which in effect extends their maturity in line with the new pricing terms set by ECB, with the purpose of continuing to consolidate the benefit for Group funding, currently at a rate of around -0.40%. With the evolution in the composition of the T-LTRO II group, and owing to the operational decisions made, about €600 million has been repaid for the mutual banks that no longer met the requirements for remaining in the TLTRO II group and about €1 billion by Iccrea Banca.

In an environment of growing uncertainty, the ECB's economic policy is laying the groundwork for further monetary stimulus. Operations in the secured MTS market (repo segment) saw a slight increase in rates in the short-term segments. At June 30, 2019 the average for collateralized funding on the repo market was about €11 billion, in line with the average for 2018, of which €9.7 billion for the mutual banks.

Within the scope of medium to long-term funding initiatives, a total of €1.46 billion in funding operations were completed in first half of the year. The following are the most important:

- 2 bond issues were made for a total of €341 million with an average term at issue of 2.85 years. Of these placements, 70.7% were concentrated with mutual bank customers and the remaining 29.3% with institutional customers;
- deposits with mutual banks with a term of more than 12 months were made for a total of €466.4 million and with an average term at issue of 1.71 years;
- refinancing with the European Central Bank after obtaining eligibility on January 31, 2019 for the senior security subscribed by BCC CreditoConsumo as part of the securitization transaction for performing loans originated by BCC CreditoConsumo, named "Crediper Consumo", completed in December 2018. The value of the refinancing at June 30, 2019 was €474.9 million.

Total medium to long-term bond funding outstanding as at June 30, 2019 amounted to €5.3 billion, with an average residual maturity of 2.2 years.

The mutual banks remain committed to conducting forex transactions through the FXMM (Forex and Money Market) portal for real-time spot, forward and swap trading. In the first half of the year, 45,600 contracts were traded through this portal for a total volume of about €1 billion.

As for the trading component, a total of €131 billion was traded, with a large portion going towards developing swap trading.

Operations in Italian government bonds, structured as market making on the Hi-MTF and ETLX platforms, saw the listing of 111 securities with a total of €1.9 billion traded, an increase of 292% compared with the same period of the previous year. Trading on the Italian bond market (MOT) posted volumes of €1.1 billion, down 25% compared with the same period of the year before.

Total volumes of Italian government notes traded on the institutional investor markets (MTS, BondVision and Bloomberg) amounted to €16.3 billion, down 66% compared with the same period of the previous year.

Within the context of market making for eurobonds, Iccrea Banca listed 272 eurobonds on the Hi-MTF market, 448 eurobonds on the EuroTLX market, and 205 eurobonds on Extramot and Euromot.

Total volumes traded on these markets came to about €1.3 billion, which is in line with the previous year.

As regards OTC derivatives business, Iccrea Banca traded contracts for a nominal volume of about €2 billion.

The affiliated banks concluded contracts for a total nominal volume of about €300 million, down 57% compared with the same period of the previous year.

The affiliated banks' operations focused mainly on hedging the interest rate risk of portfolios of fixed-rate mortgages: 6 mutual banks carried out 8 macro-hedge transactions with a total nominal value of €237 million. Compared with the same period of last year, there was a significant decrease in transactions to hedge interest rate risk connected with positions in government bonds.

As for Iccrea BancaImpresa, it concluded 51 derivative contracts with a total notional value of about €113 million.

Derivatives were used, in managing the banking book, to hedge the interest rate risk associated with positions in government bonds.

Total volumes for the ICBG at the end of June amounted to €6.5 billion in derivatives hedging banking book positions. Trading derivatives in the Parent Company's books totaled €25.4 billion, of which €20.9 billion in short-term foreign exchange positions and €4.5 billion in interest rate positions.

With regard to receiving orders on financial markets, there was a significant recovery in the Italian stock market, with the FTSE MIB gaining 15.9% in the first half of 2019 compared with how it closed in 2018.

The government bonds sector also made a significant recovery in prices, albeit with strong volatility, culminating in the final part of the period in a rally that drastically narrowed the Italian BTP/German Bund spread.

The European Union's decision to not launch an excessive debt procedure against Italy, the appointment of Christine Lagarde to helm the ECB and the possibility of a new round of quantitative easing on the part of the ECB led, in June, to renewed interest by international investors in Italian government securities. This positive trend was not however reflected in trading volumes: the value of trades on the Borsa Italiana stock market, equal in absolute terms to €267 billion, fell by 26.34% compared with the first half of 2018 while on the MOT market, the value of trades made declined by 19.12%.

With regard to intermediation conducted by Iccrea Banca on behalf of the mutual banks and their customers, volumes fluctuated in the first half of 2019 compared with the same period of 2018.

More specifically, the component representing the management of the mutual banks' own portfolios experienced a severe contraction, particularly in the first few months of the year, following the adoption of the HTC (Hold to Collect) business model, which led to a significant reduction in trading activity. In the first half of 2019, the volume traded by the mutual banks was €3.2 billion against €8.1 billion in the first half of 2018.

As for retail segment transactions, during the period flow trading by the mutual banks' customers was consistent with the data for the first half of 2018. The segment that posted the best performance compared with a year prior was that of exchange traded funds (ETFs), which saw a 35% increase in volumes traded (from €332 to €448 million).

Iccrea Banca also acts as a partner in delivering the entire value chain of securities administrative and settlement services. In addition, it provides a high degree of flexibility in service delivery so that it can also handle and satisfy the complex requirements of specific customers of the affiliated banks.

In the first half of 2019, in order to enable all the ICBG entities to satisfy the new EU-level requirements pertaining to reporting to the supervisory authorities (CONSOB and ESMA) on transactions involving financial instruments settled internally by banks without recourse to a central securities depository (CSD), a special service was introduced that allowed the affiliated banks, companies within the direct relevant scope and Iccrea Banca, to suitably satisfy the obligation in the first report made at the end of the period.

As a direct participant in Target 2 Securities (T2S), the European securities settlement platform managed by the ECB, Iccrea Banca took steps to adapt its own information technology systems to the new Release 3.0 deployed in the first half of the year.

The main services provided to the affiliated banks in the area of ancillary services and management of the finance register were:

- the financial instruments database service (A.T.C.I.) - for the recordation of new issues and continuous updating of variable data to meet MiFID2 requirements - which manages 75,000 recorded instruments;

- administrative support for activities connected with the management of the "pool collateral" mechanism facilitating access to collateralized financing operations, in particular with the European Central Bank through the treasury desk;
- the listing service for issues in the "order driven" segment of the HI-MTF market to comply with Consob liquidity regulations and, more recently, placement and trading procedures for those issues. Participating mutual banks numbered 57, with a total of about 862 issues listed;
- the issuers service, which offers administrative support for the issuance activity of 91 mutual banks;
- the management of activities connected with the distribution of the investment funds of BCC Risparmio & Previdenza. The results achieved in the first half of 2019 confirmed the positive trend seen in recent years, with an increase in volumes in the retail and institutional segments and assets under administration of about €7.6 billion for retail customers. Currently 182 mutual banks, including some that do not belong to ICBG, participate in the placement platform provided by Iccrea to access the funds offered by BCC Risparmio e Previdenza. In the first half of the year, around 440,000 transactions were carried out in the SICAV segment within the context of the SIP (subject appointed for the payments) service;
- the services concerning compliance with transparency rules regarding trading governed by MiFID 2 and those relating to the monitoring of possible abuse in markets governed by MAD/MAR. In the first half of 2019, all 140 mutual banks of the Group used Iccrea Banca to comply with MiFID2 and in particular the transaction reporting service, the certification of execution venues, and post-trade transparency. As of June 30, 2019, 98 mutual banks participate in the market abuse (MAD/MAR) monitoring service;
- support for the mutual banks in the production and management of KIDs;
- support for the mutual banks and customers in meeting the EMIR derivatives reporting, with 90 affiliated mutual banks;
- the event management service – for payment of coupons and redemptions, dividends and corporate operations – was provided for about 11,200 transactions with a total volume of about €6 billion, mainly coupon payments on government securities.

As of June 2019, securities in custody and administration amounted to about €75 billion. During the period, approximately 19,000 transfers of financial instruments, 2,200 SICAVs, 11 mutual bank migrations, and 2 mergers 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. During the period, 131 NQI mutual banks took advantage of Iccrea Banca's QI service, while 9 mutual banks chose to act as QIs themselves.

Electronic money business

In the first half of 2019 Iccrea Banca continued to invest in the electronic money business in order to optimize procedures and strengthen its range of products and services in keeping with strategic policies and to ensure that the business is able to grow. Despite the decline in volumes owing to non-group banks no longer participating in this service, it demonstrated a slightly upward trend across all the primary metrics, both in issuing, with 3.9 million cards issued and about €9.6 billion in transactions, and in acquiring (POS and ATM placements), with over 190,000 POS, 4,000 ATMs active, and about €107 €billion in transactions.

In particular, with regard to the affiliated banks:

- in issuing, the entire product line (debit, prepaid and credit cards) posted a 7.7% increase in transactions driven mainly by credit cards and prepaid products (+5.4% for debit cards, +12.8% for credit cards, and +21.8% for prepaid cards);
- the acquiring segment posted significant growth (+28.5%) in POS transactions, which reached €5.2 billion, driven mainly by transactions with international circuit (Visa and MasterCard) products, which grew by 24.8%.

The issuing and acquiring fraud segment also showed a net improvement in the first half of 2019 compared with the same period of 2018; in particular:

- a decrease of 23% (from €790 thousand to €608 thousand) in losses in absolute terms and 60% in relative terms, if taking into account the ratio in terms of basis points between fraudulent activity and transactions conducted using cards (from 1.70 bps to 0.64 bps);
- the fraud/transaction ratio is considerably lower than even the European average (4 bps, sources: Visa, Mastercard, ECB).

Among the main projects and commercial initiatives undertaken that contributed to the performance reported in the first half of 2019, the following were particularly important:

- international debit cards; the VentisCard Debit was launched as part of the development of the new Ventis range of cards. It is more advanced than traditional debit cards since it offers cardholders more features, such as being able to use it for online transactions, thanks to the extensive coverage of the international circuit;

- instant cashback; Ventis City, a platform launched in 2018, was enriched with the addition of the new instant cashback option. Merchants can now promote their businesses through an online store created by Ventis City that offers promotional discounts to those who register with the Ventis.it portal;
- authorization for processing at fuel pumps; Iccrea Banca, having obtained certification from the Visa and MasterCard circuits, began entering into agreements to act as acquirer for transactions at fuel pumps;
- disputes and fraud; two important process efficiency-enhancement actions were pursued. The first involved the automation of fraud handling using dedicated software to dematerialize paperwork, which considerably reduces processing times. The second regards the implementation of antifraud software provided by the circuits that, at the global level, makes it possible to quickly identify the POSs on which cards are misused;
- migration of direct acquiring; the process of migrating the array of merchants to the proprietary acquiring platform has been initiated. At present, 19 mutual banks have been migrated for a total of 27,000 merchants and €80 million in terms of volumes handled. The migration process should be completed by the end of 2020;
- Ventis Wallet; a new payment service for Ventis.it is being developed. The wallet is to be an integrated product that is to be used for payments, social media, and customer loyalty programs, with exclusive and innovative value-added services. In particular, it will be possible to use the Ventis App to order a prepaid card (with and without IBAN), sign up for cashback options and to chat, comment on and review purchases.

Information Technology

Continuing work begun in 2018, the ICT unit was highly committed to carrying out projects connected with the launch of the ICBG, to further developing the “target” IT system for the affiliated banks (BCC SI), and to starting to outsource work to the delegated technical structures of mutual banks other than BCC SI.

As to the first project, development was completed for certain key areas (consolidated financial statements, harmonized supervisory reports, Asset Quality Review), resulting in the completion of software application platforms and the relative data input procedures.

More specifically:

- the execution and configuration of the platform for generating financial statements and consolidated supervisory reports was completed, as was its integration in the relative application architecture. The platform was also shared with the affiliated banks for use in financial and individual supervisory reporting;
- the use of the supervisory risk platform for managing reporting data and the process for generating consolidated supervisory reports was extended to the companies that fall within the broader scope of the ICGB.

In addition to completing projects in the key areas mentioned above, other projects important for ICBG’s operations were carried out in the following areas: Group register, early warning system (EWS), stress tests for loans and credit risk management; new platform for monitoring RAF/RAS indicators at the Group and the individual affiliated bank levels; repository contracts and IFRS 16 calculation engine; anti-money laundering (dashboard to support the alignment of the Group risk profile, standardize the management of customer risk profiles, initiate monitoring of the main risk factors), balance sheet management (dashboard for forecasting simulations based on balance sheet and income statement data, on the primary operational profiles, fed with data from the Group companies); collateral management (dashboards for collateralized securities and collateralized loans to support liquidity management operators); Group VAT implementing measures needed to meet the requirements across all the IT systems of the companies participating in Group VAT to ensure its execution; compliance (platform for managing the compliance assessments of and judgements on the affiliated banks).

Regarding IT security, projects were launched to buttress the overall security level of the Group system.

More specifically, the Parent Company’s organizational structure for monitoring ICT security was upgraded by:

- adding a specialized unit to the security components that are in the process of being defined as part of the design and development of secure software.
- reinforcing the organizational unit responsible for monitoring and preventing security events, in terms of both resources and tools.
- solidifying the organizational unit that manages digital IDs and profiling for applications.

Moreover, a working group was set up within the Security and Business Continuity Committee to gather and coordinate all the projects designed to raise the security levels of the technological infrastructures and IT systems (taking into account as well of verifications done by the second- and third-level control bodies).

Finally, significant upgrades were made to infrastructures: new backup architecture; industrialization of the patching management model, with the introduction of software distribution tools (IBM BIG FIX) and the management policy and baseline; segmentation of BCC SI’s network to make it more effective and further improve security levels to bring them into line with the market’s best practices.

In January 2019, an extensive program to upgrade BCC SI's target IT system was undertaken. It is divided into the following sub-projects:

- evolution of the IT system architecture, with the goal of improving the banks' user experience (unifying and optimizing front-end systems); preparing the back-end part of the services architecture in preparation for future enhancement; reinforcing the security-related aspects of the system's basic tools;
- data and reporting, focusing on the creation of the new data warehouse (DWH) and on reporting in support of specialized data usage by the market;
- relational front-end, to streamline the management of relationships with customers/counterparties and of contacts, to initiate selling, to monitor performance and to suggests potential areas for improvement;
- creation of the new engine for generating multichannel and multistep initiatives which includes email, text messaging, landing page, internet banking, push notification, branch, contact center and ATM channels;
- adaptation of the IT system to the Group's lending policy;
- implementation of the strategy across the Group's digital channels. The main projects include those focusing on compliance with PSD2, on the creation of instant payments settlement infrastructures and platforms, on the development of an online placement platform for the procedures and services that the affiliated banks will be able to personalize for their customers.

The migration of the affiliated banks is under way. It includes transferring all those banks currently using other application platforms to BCC SI. In connection with this, work was completed on the migration engine to transcode and format flows from the migrating banks with respect to the requirements of those that are users of the IBT (Gesbank platform) information system, already being used in current projects to migrate said affiliated banks.

The migration engine is at an advanced stage of execution with regard to the processing of data from the banks that use the Phoenix (SIB2000 platform) IT system and will be completed by the end of this year.

The migration plan for 2019, which will add 13 affiliated banks, is proceeding on schedule; in the first half of the year, 4 affiliated banks migrated from the Gesbank (IBT) and SIB2000 (Phoenix) systems to BCC SI.

The 2020 plan is being firmed up; 12 more banks are to migrate next year, including the banks that use the IBT (4) and Cabel (1) IT systems whose migration will be completed in the first half of the year. The migration process should be finished in 2021.

RETAIL BUSINESS AREA

BCC Risparmio&Previdenza SGRpA

In the asset management sector, total assets under management/placement by BCC Risparmio&Previdenza amounted to €15.9 billion, an increase of €1.3 billion compared with the end of 2018, with net funding of about €580 million.

Assets under management by the company at the end of the first half of 2019 break down as follows:

- 11.84% in investment funds and funds of funds;
- 9.68% in fixed-income funds;
- 4.64% in supplementary pension funds;
- 21.28% in portfolio management products;
- 52.6% in third-party SICAVs.

This performance in net funding was the result of positive funding from supplementary pension funds, securities investment products and insurance asset management, third-party SICAVs, and fixed-income funds, partially offset by the negative funding from mutual funds and institutional asset management. The market effect was positive for about €750 million.

The total assets under management in investment funds amounted to €1.8 billion, in fixed-income funds to €1.5 billion, in portfolio management products (retail, institutional and insurance) to €3.4 billion, in supplementary pension funds to about €738 million and total placements in third-party SICAVs to €8.4 billion.

The company generated fees and commissions of €66 million on the assets under management, retroceding fees and commissions totaling €49.1 million, of which €43.3 million to the ICBG banks.

The first half of 2019 closed with a gross profit of €5.2 million (€3.5 million after taxes), as compared with €8.7 million in the first half of 2018.

BCC CreditoConsumo SpA

Within the scope of lending to retail customers, in the first half of 2019 BCC Credito Consumo 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. At June 30, 2019, 190 mutual banks (net of mergers during the period) had agreements with the company.

With the new scope of the mutual bank channel, now consolidated, the company has managed to maintain very high production levels thanks to the strong boost from and the effective protection of its territories. Production for the first six months of the year rose 15% to €228 million, owing to the commercial strategies and initiatives developed and to a positive market scenario (as can be seen in the latest ASSOFIN which, at May 31, 2019, record a 6% increase compared with the same period of the previous year in terms of volume).

The company's loans amounted to €933.2 million. The net profit for the period came to €9.6 million (gross €14.3 million).

Banca Sviluppo SpA

In the first half of 2019 Banca Sviluppo was engaged on multiple operational fronts in in supporting ordinary operations and carrying out the project to sell its branches to completely dispose of the peripheral network which is to be integrated with the affiliated mutual banks. Therefore, in the first half of 2019, the sale of three branches located in Veneto were sold and negotiations are under way to sell other branches in Calabria (20), Emilia-Romagna (21), Sicily (5), Campania and Basilicata (4). These operations go towards redefining Banca Sviluppo's strategic positioning and business model, in light as well of the company's potential new role within the Group which is being defined in the course of strategic planning.

In the midst of this, the branches continued their ordinary operations with a view to maintaining business continuity and preserving market share, as well as developing commercial efforts, particularly for loans.

In line with the Group's strategy to reduce its NPLs, the company is preparing to participate in the Group's new securitization transaction (GACS III) involving the potential sale of about €44 million of GBV (63% of the stock of non-performing loans at the end of 2018).

Loans to the company's customers amounted to about €0.5 billion and direct funding of €0.8 billion, in line with the strategies pursued. The profit for the period was €0.3 million.

AFFILIATED MUTUAL 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) and basically is the new ICBG's strong point both today and going forward. 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).

Information is provided on this segment, which is the true innovation of the new ICBG, to describe its main features in terms of customers and, more generally, its business model as at June 30, 2019, the first reporting date for the new Group and the starting point for commercial initiatives and risk management actions that will be defined in the ICBG's first strategic plan, currently being drafted. These initiatives focus more heavily on forging relationships with households and SMEs by making the best use of the territorial network and by exploiting synergies, expanding the range of products and services offered and taking advantage of economies of scale that could result from belonging to a nationally important Group.

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 140 mutual banks belonging to the Iccrea Cooperative Banking Group as at June 30, 2019, presented in aggregate form and gross of intercompany items. To enable a more immediate understanding of the Group's balance sheet, the following tables contain more condensed schedules of assets and liabilities than provided for in Circular no. 262/05 of the Bank of Italy. The balance sheet at June 30th is compared with the corresponding data at December 31, 2018.

Balance sheet

€/thousand	30/6/2019	31/12/2018
Cash and cash equivalents	695,490	808,036
Financial assets measured at fair value through profit or loss	1,770,421	1,436,578
Financial assets measured at fair value through other comprehensive income	10,854,216	15,415,629
Financial assets measured at amortized cost	114,051,194	108,208,861
Hedging derivatives and value adjustments of macro-hedged financial assets	161,948	59,561
Equity investments	48,822	48,651
Property and equipment	2,004,054	1,758,466
Intangible assets	62,947	64,465
Tax assets	1,784,037	1,963,466
Other assets	1,388,109	1,250,866
Non-current assets and disposal groups held for sale	39,372	42,365
Total assets	**132,860,610**	**131,056,944**

Total assets at June 30, 2019 amounted to €132.9 billion, up €1.8 billion compared with the pro-forma figures at December 31, 2018. The primary change for the period comes from the reclassification of about €4 billion in government securities held in the investment book (HTCS) to the HTC portfolio, following modifications to the business model followed by the mutual banks upon the formation of the new Cooperative Banking Group.

Financial assets measured at fair value through profit or loss came to €1.8 billion and mainly include financial assets mandatorily measured at fair value amounting to €1.7 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 €64.1 million.

The portfolio of financial assets measured at fair value through other comprehensive income totaled €10.9 billion (down significantly from December, primarily owing to the change in business model) and includes mainly government securities.

With regard to financial assets measured at amortized cost:

- amounts due from banks came to about €9.5 billion, of which €1.8 billion for debt securities and the remainder for current accounts and demand deposits (€3.5 billion), fixed-term deposits (€3.2 billion) and claims on central banks, comprised mainly of reserve requirements (€0.5 billion);
- loans to customers amounted to €104.5 billion, of which €34 billion for debt securities and the remainder for medium/long-term loans to customers (€54.3 billion), current accounts (€9 billion) and other loans (€5.7 billion). Around €1.3 billion represents 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. Total loans disbursed by the mutual banks – equal to €78.9 billion at June 30, 2019, net of intercompany items – were made largely to consumer households and SMEs

(37.7% and 43.9% of total lending, respectively). The aggregate NPL ratio stood at 13.5%, while the coverage ratio for impaired loans was 49.8%:

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	NPL coverage
Ordinary customers	94.8%	85.8%	94.1%	14.2%	99.2%	49.7%
Consumer households	37.7%	92.8%	40.5%	7.2%	20.0%	40.2%
Small and medium-sized enterprises	43.9%	86.7%	44.0%	13.3%	43.2%	47.2%
Producer households	*10.1%*	*85.0%*	*9.9%*	*15.0%*	*11.2%*	*45.0%*
Micro-enterprises, institutions and associations	*9.9%*	*82.4%*	*9.5%*	*17.6%*	*12.9%*	*49.4%*
Other SMEs	*23.8%*	*89.2%*	*24.6%*	*10.8%*	*19.1%*	*47.0%*
Large corporate	13.2%	63.3%	9.7%	36.7%	36.0%	58.1%
Government entities	0.8%	99.5%	0.9%	0.5%	0.0%	68.5%
Central banks, credit institutions and other financial companies	4.4%	97.7%	5.0%	2.3%	0.8%	55.6%
Total	**100.0%**	**86.5%**	**100.0%**	**13.5%**	**100.0%**	**49.8%**

Around half 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 7.2% and 13.2%, respectively) thanks to a better understanding of these types of customers. The share of loans to larger firms (13.2% of the total) was more limited and registered a higher NPL ratio.

Financial investments totaled about €44.5 billion and consist almost entirely of government securities (especially those issued by the Italian state). Around four-fifths are allocated to the portfolio measured at amortized cost (Hold to Collect business model – HTC) 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	78.9%
Fair value through profit or loss	0.3%
Fair value through other comprehensive income	20.8%
Total	**100.0%**

Property and equipment, which amounted to about €2 billion, is mainly comprised of land and buildings used in operations (€1.7 billion) and other capital goods.

Intangible assets came to €62.9 million, of which €36 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.

€/thousand	30/6/2019	31/12/2018
Financial liabilities measured at amortized cost	120,525,445	118,479,730
Financial liabilities held for trading	2,453	32,878
Financial liabilities designated as at fair value and hedging derivatives	247,700	128,725
Tax liabilities	81,375	76,553
Other liabilities	1,883,675	2,603,639
Provisions for risks and charges and termination benefits	630,022	618,819
Shareholders’ equity	9,489,940	9,116,600
Total liabilities and equity	**132,860,610**	**131,056,944**

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

- amounts due to banks totaled €23 billion, €5.5 billion of which attributable to loans obtained through TLTRO II operations and the remainder to refinancing transactions with the Parent Company;
- amounts due to customers amounted to €83.9 billion, mainly attributable to €76.2 billion for current accounts and demand deposits and €6.4 billion for fixed-term deposits. The remaining portion is made up of financial liabilities for €0.8 billion, amounts due in respect of finance leases for €0.3 billion and other liabilities for €0.2 billion;
- securities issued came to €13.6 billion, of which €8.1 billion represented by bonds and €5.5 billion by certificates of deposit.

Aggregate shareholders' equity amounted to €9.5 billion and consists of €0.9 billion of share capital, with the rest made up of reserves. The mutual banks' profit for the first half of the year amounted to €0.2 billion:

Income statement

€/thousand	30/6/2019
Net interest income	1,068,084
Net fee and commission income	510,564
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	22,255
Net gain/(loss) on disposals	71,549
Gross income	1,672,452
Net writedowns/writebacks for credit risk	(221,475)
Net income/(loss) from financial operations	1,450,331
Administrative expenses	(1,279,180)
a) personnel expenses	(695,530)
b) other administrative expenses	(583,650)
Depreciation, amortization and provisions	(74,646)
Other operating expenses/income	145,119
Operating expenses	(1,208,707)
Profit/(loss) from equity investments	(68)
Profit/(loss) from disposal of investments	2,910
Profit/(loss) before tax on continuing operations	244,466
Income taxes on income from continuing operations	(41,825)
Profit (loss) on discontinued operations after tax	83
Net profit/(loss) for the period	**202,723**

Net interest income derives from interest and similar income of €1.3 billion, mainly on loans to customers (€1.2 billion) and financial assets measured at fair value through other comprehensive income (€0.4 billion), against interest and similar expense of €0.3 billion, comprised in equal measure of amounts due to customers and securities issued.

Fee and commission income amounted to €595 million, essentially attributable to the holding and management of current accounts for €243 million and collection and payment services for €173 million. Fee and commission expense totaled €84 million and are ascribable almost entirely to collection and payment services and securities in custody and administration services (€76 million).

Other administrative expenses refer largely to indirect taxes and duties for €139 million, professional services for €112 million, consumption goods and services for €91 million and information technology for €49 million.

The evolution of the corporate and geographical structure

In the first half of 2019 the rationalization process, which has been under way for some years in the mutual banking sector, continued. Specifically, the number of affiliated mutual banks fell owing to mergers, which cut the number of mutual banks to 140 from 142 recorded on March 4, 2019 when the ICBG was entered in the register of banking groups. More precisely, on April 1, 2019 two mergers involving four banks were carried out:

- the merger of BCC di Serino with BCC di Capaccio Paestum (which led to the creation of BCC di Capaccio Paestum e Serino);
- the merger of BCC di Gradara with RiminiBanca – Credito Cooperativo di Rimini e Valmarecchia (which led to the creation of Riviera Banca – Credito Cooperativo di Rimini e Gradara).

Other mergers are currently being considered and will enable the banks involved to become stronger, bringing about economies of scale, and to more effectively and efficiently achieve the mutualistic aim and provide support for the territory, becoming a more integrated part of the local communities in which they operate, while also expanding their geographical reach.

For these same reasons, the affiliated banks have streamlined the distribution network by closing branches, which have been replaced in part by opening new branches in areas previously not served; this has led to a slight reduction in the total number of branches in recent years. The pace of rationalization of the network, while slower than that of the national banking industry, is nonetheless being carried out with respect for the characteristics of each affiliated bank (and mutual banking in general) which views having a physical presence and territorial proximity as the cornerstone of the relationship with their shareholders/customers and with their local communities.

CORPORATE BUSINESS AREA

This 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

At June 30, 2019 lending stood at about €7.5 billion, down 1.4% compared with December 2018. The Bank's new production in the first half of 2019 including both loans and lines of credit, amounted to around €0.7 billion, an increase of 7.4% compared with the previous year.

Lease operations represent 41.5% of the Bank's new lending, with a broadly uniform decrease across all segments (-7.7%). The trend is in part the result of the transfer of new auto and industrial vehicle leases to the subsidiary BCC Lease SpA. The data provided for the Assilea studies, including the production of BCC Lease and the servicing that Iccrea BancaImpresa performs for Cassa Centrale Raiffeisen, allowed Iccrea BancaImpresa to reach the ninth spot in the ranking of leasing companies with a market share of 2.95%. With regard to loans, lending in the first half of 2019 increased by €41.1 million (+26.6%) and accounted for 28.2% of the year's production. The trend was the result of the increase in all technical forms of lending, with the exception of the mortgage segment.

In 2019 the extraordinary corporate finance segment grew by 28.4%. This was owing to the increase in acquisition finance (+21.6%), corporate finance (+31.6%), energy projects (+115.7%) and real estate projects (17%), while there was a decrease in the public leasing segment (-66.6%). The international segment rose slightly compared with 2018, up expanding 3%.

Gross impaired loans amounted to €1.7 billion, essentially unchanged from the end of December 2018. The ratio of net bad debts to net loans stood at 3.8% at June 30, 2019; the ratio of unlikely-to-pay positions to net loans was 7% on that date. The coverage ratio for impaired loans was 52.2%, up compared with the 49.8% recorded in December 2018. Net impaired assets (€0.8 billion) decreased by 5.1% compared with the preceding period. During the second half of the year, the company will continue its de-risking efforts by making significant sales of its bad debts, both through GACS securitization transactions and through non-recourse assignment of lease receivables and other impaired positions.

Gross profit came to €13.4 million, compared with a profit of €9.2 million in the first half of 2018. Profit after taxes at June 30, 2019 was €10 million, compared with €10.9 million in June 2018.

With regard to BCC Lease, in the first half of 2019 the company launched the development plan established by the Parent Company, based on optimizing the volumes/margins mix. Over the period, new lending amounted to €123.8 million from 10,869 contracts, compared with €119.1 million for the first half of 2018, an increase of 2.6% in the number of transactions and 3.9% in value.

The product that posted the greatest increase was specific-purpose lending, followed by the positive performance of the agent equipment leasing channel. In line with last year, operating leases and mutual bank equipment leasing also grew, while the vehicle (light and heavy) segment declined.

The amount of lending to customers net of adjustments came to €450 million at the end of the period, compared with €422 million in December 2018 and reflects the increase in business. Impaired loans went from €23.3 million at December 2018 to €24.7 million. The ratio of impaired loans to the total loan portfolio, including the relative provisions, was 5.3%. The relative provisions amounted to €17.2 million, with an average coverage ratio of 69.7%.

The gross profit for the period was €4.8 million and the net profit €4.9 million.

As for BCC Factoring, net lending at June 30, 2019 amounted to €368 million and net impaired assets to €9.8 million. The company recorded a positive commercial trend as compared with the previous year (revenues of €949 million; + 22% on the first half of 2018). Gross income, amounting to €2.9 million, fell significantly (-10%) compared with the same period of last year, owing to the drop in rates; the net loss was €0.5 million.

Banca Mediocredito FVG SpA

Banca Mediocredito del Friuli Venezia Giulia S.p.A. of which the Autonomous Region of Friuli Venezia Giulia has historically been a shareholder and of which control passed to Iccrea Banca in July 2018, specializes in mainly medium and long-term loans and is responsible for the subsidized loan granted through subsidized financing instruments that the Region (in part under Revolving Funds) and other public entities have made available to businesses.

Net lending to customers at June 30, 2019 came to €592 million, essentially the same as the previous year. The volume of net non-performing loans fell to €77.6 million (from €84 million at December 31, 2018) mainly due to disposals completed in the first half of the year.

Net bad debts amount to €15.9 million, a reduction of about 28% compared with the previous year; the coverage ratio for bad debts stood at around 69%.

The bank's shareholders' equity amounted to €98.3 million. The income statement showed a loss of €3.6 million at June 30, 2019, owing in part to initiatives undertaken to relaunch the company.

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, on 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. Given the above, in order to allow for the comparability of the results of the Parent Company with the previous year, in the following reclassified statements the information relating to this business has been included in the relevant items of the separate financial statements.

THE BALANCE SHEET

Assets

€/thousands	30/6/2019	31/12/2018
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	26,338,297	25,654,753
Financial assets measured at amortized cost – *Due from customers – Loans*	4,735,365	3,832,731
Financial assets measured at amortized cost – *Due from customers – Securities*	6,919,275	6,874,611
Financial assets measured at fair value through profit or loss	1,634,800	896,619
Financial assets measured at fair value through other comprehensive income	362,937	282,946
Equity investments	1,264,120	1,266,772
Other assets	334,374	244,301
Total interest-bearing assets	**41,589,168**	**39,052,732**
Other non-interest-bearing assets	240,407	256,778
Total assets	**41,829,575**	**39,309,510**

Total assets at June 30, 2019, amounted to €41.8 billion, up on the €39.3 billion posted at the end of December 2018, 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 €492 million) and an increase in derivatives trading (up €291 million);
- growth in financial assets measured at fair value through other comprehensive income (FVOCI), attributable to the purchase of debt securities (€76.1 million, €53.7 million of which related to government securities);
- an increase in amounts due from banks, attributable to the liability for reserve requirement funds of the mutual banks (up €570.6 million), collateralized loans (up €150.3 million), and uses in current accounts (up €276.1 million), effects which were partially offset by a decrease in debt securities (down €402.8 million);
- growth in amounts due from customers, attributable to repo transactions with the Clearing & Guarantee Fund (€799.7 million).

(€/thousands)	30/6/2019	31/12/2018
Mutual banks	18,024,881	18,104,299
Other credit institutions	8,313,416	7,550,454
Due from banks	**26,338,297**	**25,654,753**

Lending to mutual banks remained essentially stable at about €18 billion. These loans, disbursed with pool collateral, include approximately €9.7 billion in operations with the ECB (TLTRO II), with the rest being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) are largely attributable to intercompany receivables. Loans granted to Iccrea BancaImpresa, amounting to €6.5 billion, include about €1.1 billion refinanced by the Parent Company with the central bank through the use of the "ABACO" procedure, with the use of collateral in the amount of €2.4 billion.

(€/thousands)	30/6/2019	31/12/2018
Current accounts	259,881	319,673
Medium/long-term loans	76,513	82,856
Repurchase agreements	1,998,871	1,199,151
Other transactions	2,389,680	2,216,073
Impaired assets	10,420	14,978
Due from customers	**4,735,365**	**3,832,731**

Loans to ordinary customers include €2 billion related to intercompany loans and the same amount related to repurchase agreements with the Clearing e Guarantee Fund. The €0.9 billion increase compared with 2018 derives mainly from the greater number of repo transactions with the Clearing e Guarantee Fund.

The investment portfolio referring to HTC securities with customers is mainly made up of government securities and shows a balance at June 2019 of €6.9 billion.

The portfolio of financial assets measured at fair value through profit or loss (€1.6 billion) increased by €738 million from December 31, 2018 (€897 million) due, above all, to the new role played by the Parent Company as the manager of the Guarantee Scheme (€492 million) and to the increase in derivatives trading (up €291 million).

Financial assets measured at fair value through other comprehensive income, referring to the HTCS business model, are mainly made up of government securities and show a balance of €363 million at June 30, 2019.

Equity investments totaled €1.3 billion, which is in line with December 31, 2018. The interest held in Securfondo was adjusted to its NAV as at June 30, 2019, with the €2.3 million decrease in value being recognized through profit or loss.

Liabilities and equity

€/thousands	30/6/2019	31/12/2018
Financial liabilities measured at amortized cost – *Due to banks*	20,131,804	19,424,621
Financial liabilities measured at amortized cost – *Due to customers*	12,972,056	12,615,042
Financial liabilities measured at amortized cost – *Securities issued*	5,300,750	5,027,706
Financial liabilities held for trading	557,606	251,128
Financial liabilities designated as at fair value	423,550	-
Other liabilities	412,612	335,127
Total interest-bearing liabilities	**39,798,377**	**37,653,624**
Other non-interest-bearing liabilities	187,113	85,134
Shareholders' equity	1,827,956	1,606,384
Profit/(loss) for the period (+/-)	16,130	(35,632)
Total liabilities and shareholders' equity	**41,829,575**	**39,309,510**

Interest-bearing funding totaled €39.8 billion, an increase of €2.1 billion from the previous year due to the following factors:

- growth in amounts due to banks as a result of the increase in deposits and current accounts (up €1,757.9 million), which was partially offset by a decrease in repos (down €121.5 million) and in ECB funding (down €1,015.7 million);
- an increase in amounts due to customers, attributable to deposits and current-account financing (up €360 million), which was offset by a decrease in repurchase transactions with the Clearing e Guarantee Fund in relation to operations on behalf of the Italian Treasury (OPTES) with the Ministry for the Economy and Finance as the counterparty;
- an increase in securities issued as a result of new issues (up €341.3 million), which was partially offset by securities reaching maturity (down €91.8 million);
- an increase in liabilities held for trading, attributable mainly to trading derivatives (up €305.0 million);
- the establishment of 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 (up €423.6 million).

(€/thousands)	30/6/2019	31/12/2018
Mutual banks	6,197,277	4,371,951
Other credit institutions	13,934,527	15,052,669
Due to banks	**20,131,804**	**19,424,621**

Interbank deposits, which include €757 million in deposits for the fulfillment of mandatory reserve requirements for the mutual banks, amounted to €20.1 billion. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €2.8 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the TLTRO II (€12.7 billion), while the remainder refers to intercompany transactions.

(€/thousands)	30/6/2019	31/12/2018
Current accounts and demand deposits	729,281	369,280
Loans	11,784,594	11,791,402
Other payables	458,181	454,359
Due to customers	**12,972,056**	**12,615,041**

Funding from customers is essentially in line with 2018.

The value of securities issued at June 30, 2019, was €5.3 billion, an increase of about €273 million on the end of 2018, a change which reflects the net impact of maturing securities in the amount of about €92 million and new issues of about €341 million.

EQUITY

At June 30, 2019, Iccrea Banca's share capital, made up of 27,125,759 ordinary shares with a nominal value of €51.65 each, totaled €1.4 billion, an increase of €250 million from 2018 following efforts to strengthen capital as approved by the shareholders on January 10 and completed in early April. Shareholders' equity, excluding earnings for the period, amounted to €1.8 billion, an increase of €222 million compared with December 31, 2018. The main changes may be attributed to the positive effects of the aforementioned increase in capital (up €250 million) and the increase in valuation reserves (up €7 million) as a result of the increase in value of the FVOCI portfolio, which was partially offset by the loss carried forward from 2018 in the amount of €35.6 million.

THE INCOME STATEMENT

€/thousands	30/06/2019	30/06/2018
Net interest income	29,410	26,070
Gains/losses on financial transactions	32,792	(52,376)
Dividends	51,226	41,615
Net fee and commission income	75,320	75,650
Other operating expenses/income	33,349	14,286
Gross income	222,246	105,246
Personnel expenses	(65,081)	(42,259)
Other administrative expenses	(135,396)	(119,254)
Net adjustments of property and equipment and intangible assets	(5,251)	(3,363)
Total operating expenses	(205,728)	(164,876)
Gross operating profit	16,518	(59,630)
Net provisions for risks and charges	(427)	682
Net losses/recoveries on impairment of loans and other financial transactions	(631)	(6,001)
Total provisions and adjustments	(1,207)	(5,319)
Profit/(loss) from equity investments	(2,322)	-
Profit (loss) before tax	12,989	(64,949)
Income tax expense	3,141	5,450
Profit/(Loss) for the period	**16,130**	**(59,499)**

Net profit for the period came to €16.1 million, an increase over the performance of June 2018 (net loss of €59.5 million), which was significantly impacted by events of an extraordinary nature, including:

- the contributions to the National Resolution Fund (BRRD) totaling €28.6 million;
- the full disinvestment of the investment book (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million;
- administrative costs incurred for the establishment of the ICBG in the amount of about €7.2 million.

Gross income at June 30, 2019, including other operating income (€33.5 million), totaled €222.2 million, an increase of €117.0 million compared with June 30, 2018 (€105.2 million), when performance was heavily influenced by the stop-loss strategy described above.

Net interest income, which saw an increase in return on the securities portfolio (€7.3 million) and on intercompany lending (€3 million) that was partially offset by a decrease in return on the loan portfolio (€1.2 million) and an increase in the cost of medium to long-term funding (€5.7 million), made a positive contribution to overall financial performance. Net fee and commission income remained essentially stable, while dividends increased by €9.6 million due to the increase in profitability of Iccrea BancaImpresa, BCC Gestione Crediti and BCC CreditoConsumo (up €18.9 million), which was partially offset by a decrease in dividends received from BCC Risparmio & Previdenza (down €7 million) and from BCC Solutions (down €2.0 million).

Net income from financing activities posted gains of €11.5 million attributable, above all, to the securities of Nexi (€7.4 million) and Visa Inc. (€3.6 million), while gains on disposals related to the sale of government securities (€20 million) allocated to the HTC portfolio contributed to the recovery in gross income from the previous period, which was influenced by the extraordinary events described above.

Total costs increased by €41 million compared with 2018 to reach €206 million due, in large part, to the increase in personnel expenses (from €42.3 to 65.1 million) as a result of an increase in the workforce (from an average of 900 to more than 1,300 FTE) following the reorganization to create the ICBG. The change in other administrative expenses was mainly due to the increase in IT costs (€20 million) incurred for the creation of the ICBG and for the installation of new workstations (€2 million), costs which were offset by the lower BRRD contribution (€6.0 million) resulting from the change in the parameters used to calculate it. The increase of €1.9 million in depreciation and amortization was mainly due to increases in the capitalization of software for ICBG-related projects.

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.

The creation of a specific e-money company, which requires authorization by the Bank of Italy, will facilitate the assessment of a potential opening of the capital of the new company to third-party operators, functional to raising funds and expertise for the incremental growth and development of the business.

The decision to establish a dedicated legal entity to manage the e-money business is 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	30/6/2019
Financial assets measured at amortized cost:	535
Equity investments	5,027
Property and equipment	4
Intangible assets	2,148
Other assets	141,051
Total assets	**148,765**

€/thousands	30/6/2019
Financial liabilities measured at amortized cost	98,231
Other liabilities	41,141
Post-employment benefits	672
Provisions for risks and charges	1,414
Profit/(Loss) for the period (+/-)	7,307
Total liabilities and shareholders' equity	**148,765**

Equity investments include the investments in Ventis (95%), in the amount of €4.9 million, and in Bancomat S.p.A. (9.71%), in the amount of €107 thousand.

Financial liabilities measured at amortized cost include the total funds on prepaid cards.

Income statement

€/thousands	30/6/2019
Fee and commission income	174,338
Fee and commission expense	(132,848)
Net fee and commission income	**41,490**
Gross income	**41,490**
Net income/(loss) from financial operations	**41,490**
Administrative expenses:	(38,678)
a) personnel expenses	(3,313)
b) other administrative expenses	(35,365)
Net provisions for risks and charges	(130)
b) other net provisions	(130)
Net writedowns/writebacks of property and equipment	(1)
Net writedowns/writebacks of intangible assets	(276)
Other operating expenses/income	7,903
Operating expenses	**(31,182)**
Profit/(loss) before tax on continuing operations	**10,308**
Income tax expense	**(3,001)**
Profit/(Loss) for the period	**7,307**

7. HUMAN RESOURCES

THE GROUP'S WORKFORCE

The workforce of the Iccrea Cooperative Banking Group totaled 22,260 employees (21,804 FTE[7]) at June 30, 2019, and included 415 senior managers (413 FTE), 6,213 middle managers (6,187 FTE), and 15,632 employees in the various professional areas (15,204 FTE).

In the first half of 2019, the total workforce increased by 223 employees, or by about 1%. The trends in new hires and terminations for the Iccrea Cooperative Banking Group during the first half of 2019 mainly affected the Parent Company, Iccrea Banca, as shown in the table below.

Position	31/12/2018		30/6/2019	
	Number of employees	FTE	Number of employees	FTE
Senior management	68	68	94	94
Middle management	577	576	877	875
Professional areas	490	482	612	602
Total	**1,135**	**1,126**	**1,583**	**1,571**

The increase in the workforce of the Parent Company during the first half of 2019, of 448 employees, was mainly due to organizational needs connected with the new model established following creation of the ICBG, which also resulted in a strengthening of the Group's corporate units, in part by integrated a portion of the personnel from the local federations and the mutual banks.

More specifically, within the scope of implementation of the new organizational structure, a plan was implemented to bring in some 300 employees (from the second half of 2018 to the first half of 2019) who were previously working with the local federations providing operational and advisory services to the affiliated banks. The goal of this move was twofold—i.e. two ensure continuity in coverage of the services provided and to establish the local offices selected by the Parent Company—in line with the organizational model defined in response to the objectives of the reform. This plan involved employees at the 11 local federations that participated in creation of the Group and began during the second half of 2018, first with employees allocated to "mandatory activities" (including all the functions of second and third-level corporate controls, auditing, risk management, compliance, and anti-money laundering), which, based on specific laws and regulations, require centralized government directly by the Parent Company on an outsourcing basis, while also remaining close to local communities.

Development of the plan to integrate the employees from the local federations and other entities directly or indirectly connected to them continued in the first half of 2019 and concerned 155 employees hired by way of transfers of employment agreements in accordance with Article 1406, a small portion of which in order to complete the centralization of the corporate control functions within the local corporate offices, while the vast majority (over 120 employees) went to provide operational services and fill staff functions (i.e. functions that, under the previous organizational structure, provided advisory and operational services directly to the affiliated banks, especially administration, planning, human resources, organization, and legal and fiscal affairs), implementing a model that combines the effectiveness of hierarchical management and the interdependency of functions with professional and functional centralization within the units of the Parent Company.

In 2019, in completion of the structure as it concerns the corporate control functions, work also began to integrate employees of the affiliated banks within the ICBG. In the first half of the year, this centralization of employees within the Parent Company (which also complies with specific guidelines of the ECB) involved 194 employees hired by way of transfers of employment agreements in accordance with art. 1406. This process will be continuing throughout 2019 and will involve some 140 additional employees.

In the first half of 2019, there were also a significant number of terminations connected with early retirement incentive plans, participation in the "Quota 100" pension mechanism, etc.

[7] Full-Time Equivalent.

TRAINING AND DEVELOPMENT

Employee training and development is of strategic importance to the increasing complexity and rapid change that the ICBG is currently experiencing. As such, training programs at all levels have attracted even greater attention than in the past. Of particular note in this regard are:

- training initiatives for employees of the Parent Company and of the other companies of the direct scope. Given the Group's new organizational structure, the enhancement of professional and managerial skills has become of even greater importance in light of the need to facilitate internal organizational changes while ensuring that people are well suited to the new organization, thereby creating the conditions for a sustainable process of change. Therefore, the 2019 training plan meets the established needs of professional development in line with the Group's plans of strategic evolution, while taking account of the known training needs, of the recent increase in the workforce, and of the organizational changes related to the creation of the ICBG;
- training and informational initiatives for the directors and employees of the affiliated banks aimed, again, at supporting their ability to deal with the complexity and change brought about by the start of operations of the ICBG. More specifically:
    - employee training programs on issues directly connected with the organization and operations of the ICBG and with the main areas of legislation that concern the banking industry, in relation to which centrally coordinated training programs seek to further support the necessary standardization in practice and application;
    - training programs for company executives. Specifically, training initiatives have been designed to address the most significant changes to responsibilities during the year following creation of the ICBG, along with training programs for recently appointed executives.

Integration with Accademia BCC also falls within the scope of efforts to enhance the Group's training and development capabilities. This was done in the first half of 2019 with the goal of creating a mutual banking corporate academy that would rationalize and enhance the professional training and development systems and services within the Group. More specifically, this was achieved by integrating the employees and capabilities of Accademia BCC within the training functions of the Parent Company and by acquiring all the shares held by other shareholders on May 28.

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 its 25th update to Circular no. 285/2013 on October 23, 2018, 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, particular as concerns 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 April 30.

With regard to the Group companies within the direct scope, the policies approved by the shareholders of the Parent Company have been adopted by way of formal resolutions of the shareholders of the banks and of the asset management companies, as well as of any other competent bodies for the other companies.

As for the goal of ensuring standardization in the application of the principles underlying the ICBG's remuneration and incentives policies, the related guidelines were issued to the affiliated banks on April 2, 2019. In order to ensure their adoption, a standard was also drafted to assist the affiliated banks and their shareholders with adoption of their own remuneration policies and incentives systems, defined in accordance with the principle of proportionality.

In completion of the process of adapting to changes in legislation, the Parent Company, on June 21, 2019, issued a directive providing the affiliated banks with operational instructions for updating existing individual severance agreements that exceed one year of salary. This process was to be completed by June 30, 2019.

LABOR RELATIONS

With regard to labor relations, the first half of 2019 saw the continuation of constructive dialog with the trade unions, with employee representatives collaborating to find solutions that are to the benefit of employees in terms of employment, career, and remuneration, while providing constant, constructive support throughout the reorganization of the Group's operational and corporate functions. Given the significant organizational changes involving the Parent Company, the first half of the year featured intensive discussion for the disclosures pursuant to Article 12 of the supplemental company agreement and the management of some 400 conciliation procedures pursuant to Article 1406 of the Civil Code for the transition of the corporate control functions from the mutual banks and local federations to Iccrea Banca.

Negotiations for renewal of the collective bargaining agreement of the mutual banks were completed in January. The new agreement calls for: forms of greater organizational flexibility; salary adjustments for employees of the mutual banks, the Raiffeisen banks and all other companies and entities of the mutual banking system; particular emphasis on investments in training and development; measures for ensuring better work-life balance; and provisions that generally aim to reinforce the mutual banks' services for the local communities. The renewed agreement also includes provisions in favor of parenthood and other social measures, including the introduction of time off for volunteering for civil, social and environmental purposes and the possibility of establishing "social time banks". In terms of salaries, the agreement calls for an average increase of €85 per month effective as of January 1, 2019, in line with the raises already implemented for the rest of the banking industry. The agreement reached also calls for the launch of standing discussions aimed at analyzing applicable legislation in terms of the transformations that arise over time in response to full application of the industry reform and any impact it may have on employment.

8. 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).

Iccrea Banca, as the Parent Company of the ICBG, 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 the risks deriving from the activities performed by the companies within the scope of its management and coordination powers and by the Parent Company itself. It seeks to ensure the solvency and liquidity of the Group as a whole and the financial sustainability and proper operation the joint and several Guarantee Scheme on the basis of which the affiliated banks and the Parent Company are mutually committed, both vertically (from the Parent Company to the mutual banks and vice versa) and horizontally (reciprocally among the mutual banks).

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

- pursuing sound and prudent management, in order to define clear long-term strategies; favor the preservation of capital, income generating capacity and liquidity; effectively manage risks and conflicts of interest; ensure compliance with applicable legislation in 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 foster 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.

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 and takes account of the specific operations and associated risk profiles of each of the companies belonging to it.

The RAF defines - consistent 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 propensity objectives (Risk Appetite) with the related tolerance thresholds (Risk Tolerance) while taking into account possible adverse scenarios. On the basis of the RAF, consistent operating limits are specified within the overall risk governance policies. The latter in turn represent 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. The RAF seeks 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 risk management functions must operate in the pursuing corporate strategies.

Within this framework, the risk objectives underlying the development and management of the corporate strategy are formalized within the Risk Appetite Statement (hereinafter "RAS"). In preparing the Group's RAS, the Parent Company takes account of the overall operations and risk exposure of the Group as a whole, the Group banks and the financial companies directly controlled by the Parent Company, Iccrea Banca SpA, and included within the scope of management and coordination of the Iccrea Cooperative Banking Group (hereinafter, for the purposes of this policy, also referred to jointly as the "Group companies").

With respect to the RAF, the assessment of capital adequacy and liquidity (ICAAP and ILAAP) represents the verification of the resilience of the Risk Appetite choices in terms of the current and prospective consistency of capital in relation to the risks that characterize its operations and the operational and structural liquidity profile, guiding any subsequent change in the choices themselves as well as the consequent overall strategic decisions.

Therefore, it is critically important that the Group work continuously to accurately identify the risks to be assessed. Once the significant risks are identified, the ICAAP involves assessing the risks to allocate internal capital and determine the total capital to cover them, currently and prospectively. This includes performing stress tests to assess the Group’s vulnerability to exceptional, but plausible, events. For more details, please see the more extensive discussion in section 10 “Internal capital and liquidity adequacy and assessment processes” below.

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

- credit risk: the risk of loss arising from the counterparty's failure to perform its contractual obligations due to inability to repay interest and/or principal (default risk). This category includes the risk arising from losses associated with the reduction in the market value of assets due to deterioration in the counterparty's credit rating (migration risk). One type of this risk is counterparty risk, i.e. the risk that the counterparty to a transaction could default before final settlement of the transaction;
- market risk: risk of incurring losses arising from unexpected adverse movements in market prices of financial instruments, currencies and goods. The following sub-categories are the most significant:
  - risk on the trading book position, i.e. the risk arising from fluctuations in the price of securities;
  - credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.
- credit valuation adjustment (CVA) risk: a "credit valuation adjustment" is an adjustment of market's interim assessment of transactions with a counterparty. That adjustment reflects the current market value of counterparty risk in respect of the entity. It does not reflect the current market value of the entity's credit risk in respect of the counterparty.
- operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk includes legal risk, IT risk, compliance risk and reputational risk, i.e. types of risk that cannot be measured/quantified for which the level of the suitability/compliance of the relative management processes has been assessed;
- interest rate risk on the banking book: risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- concentration risk: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- strategic risk: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes;
- sovereign risk: risk of loss arising from a sovereign state counterparty defaulting on is contractual obligations or a decline in the sovereign counterparty's credit rating;
- real estate risk: risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations;
- equity risk: risk of loss arising from a change in the value of equity instruments in the banking book;
- liquidity risk: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the existence of restrictions on the sale of assets (market liquidity risk) resulting in capital losses;
- residual risk: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected.

The initiatives for the start-up of the ICBG led to the definition of the methodological and operational system underpinning the ICBG Risk Appetite Framework, which found its first effective application in the operating activities that involved the Parent Company and the individual Group Companies in the definition and approval by the competent bodies of the Risk Appetite Statement prepared in line with their respective 2019-2021strategic plans.

This effort, although partly implemented while the Group was still in the process of being set up (second half of 2018), was carried out in accordance with operating standards based on the target operating model, with specific management and coordination initiatives by the Parent Company (i.e. preparation and transmission of the model RAS, taking due account of the results of the EWS) and ongoing dialogue that has involved all the specialist technical areas of the Parent Company and the affiliated banks.

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 2019, in line with the risk profiles included in the related framework.

In terms of capital adequacy, work focused on (i) bringing capital levels to those of our comparable market peers (average CET1 of SSM banks of 14.8%), while supporting the development of the business and the territory; (ii) repositioning capital resources in the financial sector through more prudent strategies in trading operations and in banking operations on the investment book (HTCS); and (iii) containing financial leverage, guaranteeing support to interest income with a significant financial securities portfolio (ratio of average financial portfolio to total assets of SSM banks of 14%) and remaining above our comparable market peers (average leverage ratio of SSM banks of 5.1%).

Similarly, with regard to liquidity adequacy, efforts sought to (i) consolidate the liquidity position and the short and medium-term risk profile and (ii) diversify funding channels through the implementation of initiatives aimed at optimizing the cost of funding (covered bond issue, ABACO operations, international issues, etc.).

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

- credit risk:
    - the continuation of the reduction of the gross NPL stock through: (i) the sale of non-performing loans (NPL plan), including through the use of state-guaranteed securitization transactions (GACS); (ii) the continuation of recovery actions for non-performing exposures, including the centralization of their management; (iii) the set-up of the target model of the Group's platform for the management and recovery of bad debts;
    - the consolidation of impaired loan coverage levels in line with market expectations;
    - the completion of initiatives involving the lending segment through: (i) the sharing and implementation of tools, methods and policies to improve credit quality and reduce the cost of risk; (ii) the launch of commercial initiatives supporting the network in order to promote active loan management;
- market risks:
    - the active management of the investment portfolio (HTCS) with the allocation of capital up the limit of 40% of free capital to size the portfolio;
    - the completion of the initiatives involving the financial sector through the sharing and implementation of tools, methods and policies to optimize the risk-return profile of the portfolio.
- liquidity risk:
    - the reduction of the funding gaps of the individual Group companies through the centralized management of liquidity surpluses in order to optimize the mismatching between Group assets and liabilities;
    - the completion of initiatives involving the financial segment through consolidation of the operating model supporting collateralized operations (securitizations, intermediation with the ECB, ABACO, covered bonds) as well as the offer of asset management services.
- sovereign risk:
    - the progressive reduction of the stock of sovereign securities (approximately -€ 2.2 billion during 2019) with repositioning of the financial portfolio based on a business model supporting the margin (75% of the portfolio in HTC).

UNCERTAINTIES

Uncertainty is defined as a possible event whose potential impact, ascribable to one of the categories above, is not at the moment determinable and therefore not quantifiable.

Evolution of the reference environment

The Italian environment represents the scenario in which the ICBG develops its own areas of operation. The growth outlook for the Italian economy is only slightly above zero despite timid signs of improvement originating mainly from abroad and from the willingness expressed by central bankers ready to counteract the any recession that might emerge.

The tentative positive signs could be driven by the expected effects on consumption of the expansionary measures contained in last year’s budget (e.g. the Citizenship Income). At the same time, the fragility of Italian growth could cause the economy to suffer further setbacks in response to the possible effects of the propagation of uncertainty connected with international trade tensions (in particular, the reciprocal application of tariffs between the United States and China) and to possible new concerns connected with the upcoming update of the EFD and the related provisions of the 2020 Budget Act, which are expected to avoid the application of the so-called "safeguard clauses" raising indirect taxes, in the context of the current national political framework.

The last part of 2019 will feature the first two TLTRO III auctions in September and December. The greater liquidity that will become available will enable the gradual repayment of outstanding ECB loans to begin. Both loans and reserves at the ECB will continue to decrease in terms of their share of the total bank assets, while the shares accounted for by the securities portfolio and foreign assets are estimated to grow. On the funding side, deposits will increase their share, mainly due to the growth of current accounts, while bond funding and foreign funding are both expected to decline.

As part of the activities to establish and launch the Iccrea Cooperative Banking Group, the Group is faced with a number of significant and unique issues.

Comprehensive assessment

The discussions with the supervisory authorities in the context of the process of implementing the mutual banking reform had highlighted the need for mutual banking groups to undergo the so-called Comprehensive Assessment, which is required for newly established banking groups that fall within the scope of the Single Supervisory Mechanism (SSM) and are subject to the supervision of the European Supervisory Authority (ECB), based (as already the case with the exercise conducted by the then Iccrea Banking Group in 2014) on a review of asset quality and a (new) stress test.

During the first half of 2019, 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 May the templates for Advanced Data Collection activities were completed and transmitted to the supervisory authorities to complete the preparatory phase of the exercise.

Supervisory Review and Evaluation Process and MREL

With regard to the outcomes of the Supervisory Review and Evaluation Process (SREP), the supervisory authorities have not yet notified the Parent Company of the additional requirement determined on the basis of the new configuration of the ICBG (the so-called SREP requirements). In this context, the current additional individual requirements - where present - remain valid at the date prior to the formation of the Group (i.e. P2R) calculated for the individual members of the Group, in support of the implementation of the risk governance processes defined on a consolidated basis (ICBG RAS, ICBG ICAAP, etc.). An internally estimated additional requirement of 1.40% was considered, determined as the weighted average with respect to the RWAs of the additional requirements attributed to the individual ICBG companies.

In consideration of the fact that at present there is no “guidance” requirement (the so-called P2G) at the ICBG level, an additional requirement ("add-on") deriving from the application of the framework of the Guarantees Scheme, equal to 0.7%, was considered for its quantification and consideration in the risk governance processes.

With regard to the requests of the Resolution Authority in application of the European directive establishing a framework for the recovery and resolution of credit institutions and investment firms (the BRRD), it should be noted that an MREL (Minimum Requirement of Eligible Liabilities) has not been specified for the ICBG. Discussions on this issue are under way between the Parent Company and the Resolution Authority. They fall within the scope of the ordinary initiatives and analyses being conducted in application of the overall resolution framework.

Introduction of Pillar I requirements concerning loss coverage and supervisory expectations for loan loss coverage

On 25 April 2019, Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 was published in the *Official Journal of the European Union*, amending Regulation (EU) 575/2013 (the CRR) with the introduction of provisions concerning the minimum loss coverage for non-performing exposures. The new provisions provide for minimum coverage percentages for non-performing exposures to be respected within certain maximum time periods differentiated by the presence or absence of credit protection. If the coverage is insufficient with respect to the parameters identified by the standard, banks are required to make a deduction from their own funds equal to the negative difference between the provisions set aside and those provided for in the regulation. The treatment therefore falls under Pillar I and is applicable mechanically, with a direct impact on own funds (in particular CET1) and, consequently, capital ratios. Regulation (EU) 2019/630 applies exclusively to non-performing exposures among loans originating after the date of initial application of the regulation (April 26, 2019). Therefore, it does not apply to (i) the existing NPL stock and (ii) to exposures originated before April 26, 2019 that should become non-performing in the future.

In order to take account of the requirements introduced with Regulation (EU) 2019/630, on August 22, 2019 the ECB announced that it had reviewed the requirements issued in March 2018 with the Addendum to its NPL Guidance on supervisory expectations regarding prudential provisioning for NPLs (which, although non-binding, is considered by the Authority in the dialogue with significant banks in the context of the assessments that lead to the determination of the Pillar II additional requirements). The scope of application of the ECB's supervisory expectations for the new NPLs will be limited to non-performing exposures among loans (including those still in performing status that may subsequently deteriorate) granted before April 26, 2019, therefore not subject to the Pillar I treatment noted above. The NPLs emerging from loans granted as from April 26, 2019 will be subjected solely to the Pillar I treatment mentioned earlier.

The general rules governing NPLs have been supplemented by new and especially restrictive materiality thresholds for past-due credit obligations (whose application will be mandatory as from December 2020) and the EBA prudential guidelines on the definition of default.

All these references and, in this context in particular, the introduction of the Pillar I and II requirements summarized above, lend further importance to the Group's strategies that have for some time been aimed at the pursuit of ambitious objectives for the disposal of non-performing exposures (and among these, primarily those of older vintage and/or with lower coverage levels).

As part of its strategic planning and capital management activities, the Group takes into consideration not only traditional factors such as, among others, the level of capitalization, the risks generated, the ability to produce income and funding capacity on the subordinated capital market, but also new drivers deriving from the NPL references discussed above.

The impacts of the measures are currently being evaluated in order to appropriately incorporate within the lending process the loan approval criteria and the procedures for measuring the risk/return profile of new customers, the methods for monitoring loan impairment and the proactive management of deteriorating positions for borrowers who are still operationally sound or have pledged collateral to secure their positions.

Completion of the "Banking Package"

On June 7, 2019, EU Regulation 2019/876, the Directive (EU) 2019/878, Regulation (EU) 2019/877, and Directive (EU) 2019/879 of the European Parliament and of the Council of May 20, 2019 were published in the *Official Journal of the European Union*. The legislation forms an integral and crowning part of the so-called "Banking Package", which seeks to increase the resilience of the European banking and financial system by adapting the European prudential framework to comply with the guidelines agreed internationally by the Basel Committee (BCBS) and the Financial Stability Board (FSB). The measures came into force on June 27, 2019.

With Regulation (EU) 2019/876 (the CRR 2), the provisions of which apply - with some exceptions - from June 28, 2021, the standards issued by the BCBS on (i) the capacity to absorb losses (total -loss absorbing capacity, or TLAC) of global systemically important institutions; (ii) new methodologies for calculating capital requirements for market risk; (iii) new methodologies for calculating capital requirements for counterparty risk; (iv) the prudential treatment of exposures to central counterparties; (v) the net stable funding ratio (NSFR); (vi) the leverage ratio. The provisions relating to Pillar III disclosures were also amended to adapt their contents to the above changes, as well as the reporting obligations of banks to the competent authorities.

In the broader context of the extensive changes introduced, mention must be made - due to their importance for the ICBG, of those aimed at maintaining, strengthening and extending the application of certain favorable prudential treatments aimed at supporting lending to the real economy and introducing consideration of sustainable finance in the provisions governing the calculation of the capital requirement for exposures to investments. Of particular note are the following: the changes to the "supporting factor" rules applicable to exposures to small and medium-sized enterprises, which improve the impact on the calculation of risk-weighted assets of these counterparties; the 25% reduction in capital requirements required for loans granted for the construction of infrastructure classified as corporate or specialized lending exposures; and the reduction from 75% to 35% of the weighting applicable to loans secured by wages.

With regard to Directive (EU) 2019/878 (the CRD 5) the main changes concern the introduction of a uniform method for calculating the capital conservation buffer for systemic risk and the principle of separation between the capital buffer against systemic risk, the countercyclical capital buffer and other specific buffers for other risks.

The changes introduced with Regulation (EU) 2019/877 (the SRMR2) and Directive (EU) 2019/879 (the BRRD2) are mainly aimed at ensuring a sufficient capacity to absorb losses and recapitalize global systemically important institutions.

The Group carefully monitors the innovations introduced with the Banking Package both to ensure their application the ordinary activities of monitoring capital adequacy and the quality of prudential and reporting processes and their consideration in the definition of future operating guidelines and the timely start of the adjustment process.

An assessment was made of the risks and uncertainties described above to underscore the effect of changes in parameters and market conditions on performance. The Group places a constant focus on the evolution of tools for measuring the potential impact of risks and uncertainties on its operations (specifically sensitivity analysis and stress testing), which enable it to promptly adjust its strategies – in terms of the model for distribution, organization and management/rationalization of costs – to changes in its environment. Risks and uncertainties are also under constant observation through the risk policies adopted by the Group, with policies being updated and adapted to reflect changes in strategy, the operating environment and market expectations. Monitoring and development activities are directed at checking the status of their implementation and their suitability.

The analyses conducted indicate that the Group is able to address the risks and uncertainties to which it is exposed, confirming the going-concern assumption.

9. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

ICAAP and ILAAP

In the first half of 2019, in order to support the launch of the ICBG, the Parent Company, in concert with the affiliated banks, completed projects to define and implement the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP). The overall ICAAP and ILAAP framework was defined by taking account of both specific provisions of Italy's national supervisory authorities for mutual banking groups and the guidelines issued in November 2018 by the ECB (see the ECB Guide to the internal capital adequacy assessment process and the ECB Guide to the internal liquidity adequacy assessment process).

The respective frameworks, in line with the deadlines set by the supervisory authorities (the Bank of Italy and the ECB), were implemented in the various dimensions concerned, i.e. on an individual basis by preparing and submitting 140 ICAAP/ILAAP reports and on a consolidated basis by preparing and submitting the ICAAP and ILAAP package. More specifically, implementation of the ICAAP and ILAAP processes followed the operational model based on the target configuration, as coordinated by the Parent Company, and involved execution of all respective process phases – i.e. identification, measurement, and assessment of risks under both baseline and adverse scenarios, etc. – that lead to assessment of the adequacy of capital (for the Capital Adequacy Statement) and liquidity (for the Liquidity Adequacy Statement). The quantitative and qualitative findings from the individual application of the process were taken into account as an integral part of the decision-making process with regard to the respective assessments of the corporate bodies of the affiliated banks, and were also included and considered in the broader assessments in executing the ICAAP and ILAAP on a consolidated basis.

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 (i.e. the ICBG Risk Appetite Statement and Recovery Plan) and had significant capital buffers over the time horizon considered (in 2021, the last year of the plan, the capital buffer is expected to be about €2 billion over the target thresholds);
- from the economic perspective, risk-taking capacity[8] 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 – i.e. the SREP capital requirements (SCR) for the CET1 ratio and the total SREP capital requirements (TSCR) for the TC ratio – 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.

For more information on the key aspects of the ICBG's overall ICAAP and ILAAP framework, see Part E of the explanatory notes.

Liquidity

During the first half of 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 within their target ranges at values far above the risk appetite thresholds set when preparing the financial plan, with their average values since the launch of the Group being 222% and 129%, respectively.

Liquidity buffers at June 30 totaled around €25 billion, 95% of which was in Italian government securities.

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

With regard to the recovery framework, on December 28, 2018, Iccrea Banca presented an initial version of the Group's recovery plan developed on the basis of currently available information concerning the scope of the soon-to-be-established Iccrea Cooperative Banking Group and related significant increase in the complexity of the Group. Following establishment of the ICBG, the supervisory authorities

[8] Risk-taking capacity is an indicator used to verify capital adequacy by comparing total available capital to total internal capital, given by the total value of internally estimated losses for all significant, measurable risk factors, determined by way of a building-block approach.

requested an update of the plan. Therefore, on July 1, 2019, an updated version of the plan, prepared in order to provide a generalized reinforcement of the entire recovery framework in light of the consolidation of the financial, operational and legal situation resulting from the launch of the Group, was submitted to the authorities.

The recovery plan is of particular strategic importance at the consolidated level, so it has been developed based on the data and on processes and systems in place at the Group level. Within this context, the operational processes underlying preparation of the recovery plan were carried out at the consolidated level under the direct responsibility of the Parent Company, which is responsible for preparation of the plan itself. The Parent Company's Board of Directors is the body generally responsible for this document, whereas the plan's implementation and management is defined in detail in recovery governance principles and guidelines, which call for the involvement of the Risks Committee and other management bodies such as the Recovery Committee and the boards of directors of the subsidiaries and affiliated banks when involved in implementation of the recovery plan.

At the consolidated level, recovery-related assessments found an adequate overall recovery capacity, capable of restoring the performance and financial position of all Group companies in the event of adverse idiosyncratic systemic events.

10. 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.

Centralization of the ICBG's corporate control functions

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.

The responsible parties 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 the opinion of the board of auditors. As for internal auditing, which is outsourced, also for the second-level corporate control functions these appointed parties 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, particularly in relation to the heads of the various functions.

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) may 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 and comprehensiveness 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 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.

Within this context, and to take account of the particular characteristics of the ICBG, the following organizational units have been established in order to support the CAE in performing these functions:

- the Audit Operational Support unit, 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;

- the Mutual Bank Audit unit, which is responsible for conducting internal audits related to the affiliated banks, supporting the Chief Audit Executive and the internal audit managers of those banks, based on specific outsourcing agreements and in line with the processes, methodologies and audit tools defined by the function;
- the Network Audit unit, 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.

Audits for 2019 have been set in accordance with the 2019 planning guidelines approved by the Board of Directors of the Parent Company on December 20, 2018, based on a process that is already consistent with the target operating model of the function. As a result of this process, the function prepared the 2019-2021 Group Audit Plan, which was approved by the Board of Directors of the Parent Company on February 14, 2019. This plan is organized into two sections: the IDS Audit Plan and the Mutual Bank Audit Plan. Both plans include both consolidated audits and audits of processes, branches and information systems based on the specific operational needs and the risk assessments conducted for the individual ICBG entity.

The multi-year implementation of the planning guidelines was performed, first and foremost, in relation to the consolidated audits of issues concerning multiple entities of the Group. For 2019, there are to be audits of the activities in preparation for execution of the 2019 AQR by the supervisory authorities, of the RAF, of the data protection system, and of AML systems. Supplementing these consolidated audits, for definition of the audit plans of the companies of the direct scope related to the audits of processes and information systems of the Parent Company and the companies of the direct and indirect scopes, and the outcome of the risk assessment, the need for continuity with the previous audit plans of the Parent Company and of the companies of the direct scope were taken into account in order to continue pursuing the multi-year plan of audits.

For the Mutual Bank Audit Plan related to audits of processes, branches and information systems, in addition to the aforementioned consolidated audit, all mandatory annual audits and the most relevant areas of risk for each of the affiliated banks are also to be covered.

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 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.

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 e Previdenza, Iccrea BancaImpresa, BCC CreditoConsumo, BCC Factoring, BCC Lease, and Banca Mediocredito del Friuli;
- 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, during the first part of 2019, 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, as of June 30, 2019, the implementation plan of the component responsible for carrying out the outsourced activities (the "territorial component") had been substantially 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

As part of 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, the Affiliated Bank AML unit was structured, 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.

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, in June 2019 specific training activities were launched within the broader context of the corporate governance training plan for the directors. These activities, which will be carried out in the second half of the current year, will involve the CHRO, CAE, CRO, CCO and CAMLO areas, each in their operational areas of responsibility.

11. OTHER SIGNIFICANT INFORMATION

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 and interim consolidated financial statements are audited by EY SpA, which also conducted an accounting review pursuant to Art. 14 of Legislative Decree 39/2010.
Regarding the "Transparency Directive", the Parent Company has chosen Luxembourg as its home Member State, since most of its securities have been issued on that country's exchange. For this reason, given that the relevant legislation does not require it, no Financial Reporting Officer (as provided for in the Consolidated Law on Financial Intermediation) has been appointed.

TRANSACTIONS WITH RELATED PARTIES

There are no positions or operations deriving from atypical or unusual transactions nor were atypical or unusual transactions carried out during the period 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 reports the fees paid to directors, members of the Board of Auditors, the General Manager and key management personnel and any loans or guarantees granted to them, in accordance with Art. 136 of the Consolidated Banking Act.

RESEARCH AND DEVELOPMENT

The Group did not engage in any research and development during the period.

12. SUBSEQUENT EVENTS AND OUTLOOK

Funding transactions

A securitization of performing trade receivables - denominated Credico Finance 18 - involving 14 affiliate mutual banks and Banca MedioCredito del Friuli is under way, involving the sale of a total portfolio of approximately €600 million. The transaction, which regards the sale of performing trade receivables due from SMEs to the participating banks, will make it possible to access the funds (around €300 million) made available by the EIB Group to the ICBG. With regard to the structuring of the transaction, performing trade receivables will be transferred to a securitization vehicle denominated Credico Finance 18 (SPV) which will simultaneously issue two classes (A1 and A2) of Senior notes, one class of Mezzanine notes and Junior notes. The Senior and Mezzanine notes will be rated by Moody's, DBRS and Scope Ratings and will be listed on a regulated market, while the Junior notes will be rated or listed.

Again with reference to the ICBG's liquidity requirements, the Italian and British issue programs were renewed. The first, amounting to €1.5 billion, will enable the issue of one or more bonds primarily to the retail customers of the mutual banks under the Base Prospectus authorized by Consob. The second, amounting €1.5 billion, will enable the issue of one or more bonds on the national and international capital markets issued as Euro Medium Term Notes.

Ratings

On July 23, 2019, the rating agency DBRS renewed its rating of Iccrea Banca, Parent Company of the Iccrea Cooperative Banking Group, confirming its long-term rating of BBB (low). The agency raised the outlook from "Negative" to "Stable", following developments related to the operational start-up of the Iccrea Cooperative Banking Group and the new role of Parent Company of the 140 affiliated mutual banks assumed by Iccrea Banca.

Establishment of the VAT Group

On July 1, 2019, the ICBG VAT Group became operational. The ICBG which will therefore benefit from administrative and financial advantages resulting from the application of the provisions of Title V-bis of Presidential Decree 633/1972.

The ICBG has made use of the option granted to mutual banking groups, introduced at the time of ratification of Legislative Decree 119/2018 to take account of the time required to establish such groups, to form the VAT Group with effect from July 1, 2019, having previously signed the cohesion contract pursuant to Art. 37-bis of the Consolidated Banking Act and presented the declaration to establish the VAT Group by April 30, 2019.

The main effect of the VAT Group is the loss of the individual VAT positions of the participants, which has now been replaced by a “collective” VAT position. This means that only transactions between the participants in the VAT Group and external parties are relevant for VAT purposes while transactions between entities participating in the same VAT Group are irrelevant for VAT purposes. Failure to establish the ICBG VAT Group would have resulted in VAT not being deductible for the affiliated banks, with a consequent increase in costs at the Group level estimated at €35 million per year.

The composition of the VAT Group is exactly the same as the Group as a whole, as indicated in the Register of Banking Groups held at the Bank of Italy.

Corporate and commercial relations with Cattolica Assicurazioni

The Boards of Directors of Cattolica Assicurazioni and Iccrea Banca, meeting respectively on July 3 and 5, 2019, resolved to renew their bancassurance partnership until December 31, 2022. Specifically, the renewal of the partnership provides for:

- Cattolica Assicurazioni's acquisition of a further 19% of the share capital of BCC Vita and BCC Assicurazioni (the JVs), increasing its stake to 70% in both insurance companies and consequently reducing Iccrea's interest to 30%, for a total price of €42,463,138 (of which €39,330,000 for the purchase of 19% of BCC Vita and €3,133,138 for the purchase of 19% of BCC Assicurazioni);
- the signing of a new shareholders' agreement relating to the governance of the JVs, consistent with the aforementioned reorganization of the participating interests;
- the continuation of the JVs’ insurance brokerage activities through the mutual banks belonging to the ICBG;

- the assumption, by the Parent Company Iccrea Banca, of specific promotional commitments, in accordance with a revised commercial plan mainly focused on the profitability and competitiveness of the products in the range, quality of service to the participating banks and greater penetration of customer markets.

At expiry, the agreements will be automatically renewed for further 12-month periods, without prejudice to the right to renegotiate the contents and duration or, alternatively, to terminate the partnership through the exercise of reciprocal call and put options on the entire interest held by Cattolica (70%), at predetermined conditions and fees, and subject to obtaining the necessary authorizations.

Car Server

On August 1, 2019, in line with the Group's strategy to redefine its positioning in the long-term rental of automobiles and other vehicles, the 19.01% stake in Car Server S.p.A. held by Iccrea BancaImpresa was sold for a total of about €18.3 million, giving rise to a capital gain for the Group (around €6 million before tax).

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 30/06/2019
Iccrea Banca S.p.A. financial statements	**1,401,045**	**381,350**	**45,560**	**-**	**16,130**	**1,844,085**
Net profit of consolidated companies	914,713	8,179,586	111,208	30,139	232,502	**9,468,148**
Elimination of Group company dividends		58,729			(58,729)	**-**
Net profit of companies accounted for using equity method		94,046	7,492		3,047	**104,585**
Adjustment of intercompany writedowns (revaluations)		(430)			430	**-**
Goodwill		15,564				**15,564**
Other consolidation adjustments		(1,307,681)	7,193		(14,758)	**(1,315,249)**
Consolidated shareholders' equity	**2,398,040**	**7,414,909**	**170,697**	**30,139**	**181,379**	**10,195,164**
Non-controlling interests	**82,282**	**(6,255)**	**(756)**		**2,760**	**78,031**
Group shareholders' equity	**2,315,758**	**7,421,164**	**171,453**	**30,139**	**178,619**	**10,117,133**

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

CONSOLIDATED BALANCE SHEET

Assets		30/6/2019	31/12/2018
10.	Cash and cash equivalents	806,655	129,087
20.	Financial assets measured at fair value through profit or loss	2,392,152	577,664
	a) financial assets held for trading	425,510	327,506
	b) financial assets designated as at fair value	504,410	-
	c) other financial assets mandatorily measured at fair value	1,462,232	250,158
30.	Financial assets measured at fair value through other comprehensive income	9,850,320	454,817
40.	Financial assets measured at amortized cost	130,614,294	38,832,682
	a) due from banks	6,052,250	19,242,306
	b) loans to customers	124,562,044	19,590,376
50.	Hedging derivatives	8,786	7,715
60.	Value adjustments of financial assets hedged generically (+/-)	166,338	750
70.	Equity investments	140,543	120,962
90.	Property and equipment	2,816,694	709,930
100.	Intangible assets	134,312	68,711
	of which:		
	- goodwill	52,781	16,722
110.	Tax assets	2,201,216	423,077
	a) current	505,638	110,879
	b) deferred	1,695,578	312,198
120.	Non-current assets and disposal groups held for sale	39,372	39,026
130.	Other assets	2,162,716	454,897
	Total assets	**151,333,398**	**41,819,318**

The comparative figures at December 31, 2018 regard the consolidated financial statements of the former Iccrea Banking Group.

Liabilities and shareholders' equity		30/6/2019	31/12/2018
10.	Financial liabilities measured at amortized cost	137,029,971	39,118,221
	a) due to banks	20,805,129	19,236,824
	b) due to customers	98,825,018	14,781,287
	c) securities issued	17,399,824	5,100,110
20.	Financial liabilities held for trading	337,234	245,456
30.	Financial liabilities designated as at fair value	19,585	469
40.	Hedging derivatives	388,618	69,033
50.	Value adjustments of financial liabilities hedged generically (+/-)	(245)	-
60.	Tax liabilities	88,306	4,439
	a) current	14,184	1,193
	b) deferred	74,122	3,246
70.	Liabilities associated with assets held for sale	-	20,369
80.	Other liabilities	2,512,650	615,869
90.	Employee termination benefits	323,684	24,696
100.	Provisions for risks and charges	438,433	88,971
	a) commitments and guarantees issued	184,354	21,492
	c) other provisions for risk and charges	254,079	67,479
120.	Valuation reserves	171,453	43,322
140.	Equity instruments	30,139	-
150.	Reserves	8,366,489	337,408
160.	Share premium reserves	146,014	6,081
170.	Share capital	2,315,758	1,151,045
180.	Treasury shares (-)	(1,091,340)	(4,608)
190.	Non-controlling interests (+/-)	78,030	92,879
200.	Net profit (loss) for the period (+/-)	178,619	5,667
	Total liabilities and shareholders' equity	**151,333,398**	**41,819,318**

The comparative figures at December 31, 2018 regard the consolidated financial statements of the former Iccrea Banking Group.

CONSOLIDATED INCOME STATEMENT

		30/6/2019	30/6/2018
10.	Interest and similar income	1,525,819	270,031
	of which: interest income calculated using effective interest rate method	825,454	29,905
20.	Interest and similar expense	(307,646)	(113,637)
30.	**Net interest income**	**1,218,173**	**156,394**
40.	Fee and commission income	701,256	296,729
50.	Fee and commission expense	(95,233)	(184,355)
60.	**Net fee and commission income (expense)**	**606,023**	**112,374**
70.	Dividends and similar income	3,582	1,271
80.	Net gain (loss) on trading activities	10,763	5,665
90.	Net gain (loss) on hedging activities	(1,059)	(2,500)
100.	Net gain (loss) on the disposal or repurchase of:	91,786	(48,189)
	a) financial assets measured at amortized cost	61,529	17,312
	b) financial assets measured at fair value through other comprehensive income	29,268	(63,404)
	c) financial liabilities	989	(2,097)
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	30,784	959
	a) financial assets and liabilities designated as at fair value	4,427	18
	b) other financial assets mandatorily measured at fair value	26,357	941
120.	**Gross income**	**1,960,051**	**225,974**
130.	Net losses/recoveries for credit risk in respect of:	(261,307)	(52,630)
	a) financial assets measured at amortized cost	(263,657)	(52,469)
	b) financial assets measured at fair value through other comprehensive income	2,350	(161)
140.	Gains/losses from contractual modifications without derecognition	(649)	-
150.	**Net income (loss) from financial operations**	**1,698,095**	**173,344**
190.	Administrative expenses:	(1,522,098)	(266,410)
	a) personnel expenses	(826,810)	(97,666)
	b) other administrative expenses	(695,288)	(168,744)
200.	Net provisions for risks and charges	(1,486)	(695)
	a) commitments and guarantees issued	9,697	(369)
	b) other net provisions	(11,183)	(326)
210.	Net adjustments of property and equipment	(84,802)	(10,152)
220.	Net adjustments of intangible assets	(8,442)	(3,769)
230.	Other operating expenses/income	158,412	44,121
240.	**Operating costs**	**(1,458,416)**	**(236,905)**
250.	Profit (loss) from equity investments	2,948	3,674
260.	Net gain (loss) from valuation at fair value of property and equipment and intangible assets	(13,888)	(9,522)
280.	Profit (loss) from disposal of investments	3,180	297
290.	**Profit (loss) before tax on continuing operations**	**231,919**	**(69,112)**
300.	Income tax expense from continuing operations	(50,540)	(991)
310.	Profit (loss) after tax on continuing operations	**181,379**	**(70,103)**
330.	**Net profit (loss) for the period**	**181,379**	**(70,103)**
340.	Net profit (loss) for the period – non-controlling interests	2,760	3,019
350.	**Net profit (loss) for the period – shareholders of the Parent Company**	**178,619**	**(73,122)**

The comparative figures at June 30, 2018 regard the consolidated financial statements of the former Iccrea Banking Group.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		30/6/2019	30/6/2018
10.	**Net profit (loss) for the period**	**181,379**	**(70,103)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**(17,242)**	**(6,227)**
20.	Equity securities designated as at fair through other comprehensive income	1,787	(6,617)
70.	Defined-benefit plans	(19,023)	390
90.	Share of valuation reserves of equity investments accounted for with equity method	-	-
	Other comprehensive income net of taxes recyclable to profit or loss	**226,983**	**(13,251)**
120.	Cash-flow hedges	430	228
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	224,131	(11,824)
160.	Share of valuation reserves of equity investments accounted for with equity method	2,447	(1,655)
170.	**Total other comprehensive income net of taxes**	**209,741**	**(19,478)**
180.	**Comprehensive income (Item 10+170)**	**391,120**	**(89,581)**
190.	Comprehensive income pertaining to non-controlling interests	**3,452**	**3,082**
200.	**Comprehensive income pertaining to shareholders of the Parent Company**	**387,668**	**(92,663)**

The comparative figures at June 30, 2018 regard the consolidated financial statements of the former Iccrea Banking Group.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2019

	As at 31/12/2018	Chane in opening balance	As at 1/1/2019	Allocation of net profit of previous period		Impact of formation of ICBG at 1/1/2019	Change in the period								Shareholders' equity at 30/06/2019	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
								Equity transactions									
				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	Change in equity holdings	Comprehensive income 30/06/2019			
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" regard the former Iccrea Banking Group. The asset and liability figures at January 1, 2019 of the mutual banks and the other entities of the Iccrea Cooperative Banking Group are reported in the column "Impact of formation of ICBG at 1/1/2019".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2018

				Allocation of net profit of previous period		Change in the period											
							Equity transactions										
	As at 31/12/2017	Chane in opening balance	As at 1/1/2018	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 30/6/2018	Shareholders' equity at 30/6/2018	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
Share capital:																	
a) ordinary shares	1,202,140		1,202,140										538		1,202,678	**1,151,045**	**51,633**
b) other shares	985		985												985		**985**
Share premium reserve	5,211		5,211										175		5,386	**4,747**	**639**
Reserves:																	
a) earnings	389,712	(82,595)	307,117	35,504	(6,184)								634		337,071	**337,149**	**(78)**
b) other																	
Valuation reserves	73,576	(13,792)	59,780											(19,478)	40,306	**40,302**	**4**
Equity instruments																	
Treasury shares	(30,847)		(30,847)				6,123								(24,724)	**(24,724)**	
Net profit (loss) for the period	35,504		35,504	(35,504)										(70,103)	(70,103)	**(73,122)**	**3,019**
Total shareholders' equity	**1,676,281**	**(96,391)**	**1,579,890**		**(6,184)**		**6,123**						**1,347**	**(89,581)**	**1,491,601**	**1,435,399**	**56,202**
Shareholders' equity pertaining to shareholders of Parent Company	**1,610,858**	**(89,704)**	**1,521,154**				**6,123**						**778**	**(92,663)**	**1,435,399**		
Shareholders' equity pertaining to non-controlling interests	**65,423**	**(6,687)**	**58,736**		**(6,184)**								**569**	**3,082**	**56,202**		

The schedule at June 30, 2018, presented for comparative purposes, regards the former Iccrea Banking Group.

CONSOLIDATED STATEMENT OF CASH FLOWS: INDIRECT METHOD AT JUNE 30, 2019

	30/6/2019
A. OPERATING ACTIVITIES	
1. Operations	**363,104**
- net profit (loss) for the period (+/-)	181,379
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(12,415)
- gains (losses) on hedging activities (-/+)	1,519
- net losses/recoveries on impairment (+/-)	261,307
- net adjustments of property and equipment and intangible assets (+/-)	93,243
- net provisions for risks and charges and other costs/revenues (+/-)	13,116
- taxes, duties and tax credits to be settled (+/-)	36,699
- other adjustments (+/-)	(211,744)
2. Net cash flows from/used in financial assets	**(1,109,861)**
- financial assets held for trading	(96,976)
- other assets mandatorily measured at fair value	5,793
- financial assets measured at fair value through other comprehensive income	5,215,186
- financial assets measured at amortized cost	(5,097,945)
- other assets	(708,967)
3. Net cash flows from/used in financial liabilities	**726,592**
- financial liabilities measured at amortized cost	1,127,752
- financial liabilities held for trading	71,031
- financial liabilities designated as at fair value	(21,853)
- other liabilities	(450,338)
Net cash flows from/used in operating activities	**(20,165)**
B. INVESTING ACTIVITIES	
1. Cash flow from	**31,100**
- dividends on equity investments	3,582
- sales of property and equipment	27,518
2. Cash flow used in	**(115,364)**
- purchases of property and equipment	(94,296)
- purchases of intangible assets	(21,069)
Net cash flows from/used in investing activities	**(84,264)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	(250,201)
- issues/purchases of capital instruments	226,917
- dividend distribution and other	(2,763)
Net cash flows from/used in investing activities	**(26,047)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(130,476)**

Key
(+) generated
(-) used in

RECONCILIATION

	30/6/2019
Cash and cash equivalents at beginning of period	129,087
Impact of formation of ICBG at 1/1/2019	808,044
Cash and cash equivalents: effect of exchange rate changes	(130,476)
Cash and cash equivalents at end of period	806,655

The opening balance of cash and cash equivalents at beginning of period regards the former Iccrea Banking Group. The asset and liability figures at January 1, 2019 of the mutual banks and the other entities of the Iccrea Cooperative Banking Group are reported in the row “Impact of formation of ICBG at 1/1/2019”.

CONSOLIDATED STATEMENT OF CASH FLOWS: INDIRECT METHOD AT JUNE 30, 2018

	30/6/2018
A. OPERATING ACTIVITIES	
1. Operations	**(91,545)**
- net profit (loss) for the period (+/-)	(70,103)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(24,719)
- gains (losses) on hedging activities (-/+)	2,501
- net losses/recoveries on impairment (+/-)	52,630
- net adjustments of property and equipment and intangible assets (+/-)	13,920
- net provisions for risks and charges and other costs/revenues (+/-)	2,140
- taxes, duties and tax credits to be settled (+/-)	2,493
- other adjustments (+/-)	(70,407)
2. Net cash flows from/used in financial assets	**(6,422,485)**
- financial assets held for trading	(244,386)
- financial assets designated as at fair value	1,156
- other assets mandatorily measured at fair value	(21,780)
- financial assets measured at fair value through other comprehensive income	2,470,544
- financial assets measured at amortized cost	(8,769,173)
- other assets	164,152
3. Net cash flows from/used in financial liabilities	**6,485,094**
- financial liabilities measured at amortized cost	6,597,120
- financial liabilities held for trading	160,683
- financial liabilities designated as at fair value	(185)
- other liabilities	(272,524)
Net cash flows from/used in operating activities	**(28,935)**
B. INVESTING ACTIVITIES	
1. Cash flow from	**6,412**
- dividends on equity investments	1,271
- sales of property and equipment	4,998
- sales of intangible assets	143
2. Cash flow used in	**(11,462)**
- purchase of equity investments	(795)
- purchases of property and equipment	(5,238)
- purchases of intangible assets	(5,429)
Net cash flows from/used in investing activities	**(5,050)**
C. FINANCING ACTIVITIES	
- issues/purchases of own shares	6,123
Net cash flows from/used in investing activities	**6,123**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(27,862)**

Key
(+) generated
(-) used in

RECONCILIATION

	30/6/2018
Cash and cash equivalents at beginning of period	110,641
Net increase/decrease in cash and cash equivalents	(27,862)
Cash and cash equivalents at end of period	82,779

The schedule at June 30, 2018, presented for comparative purposes, regards the former Iccrea Banking Group.

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 interim consolidated financial statements of the Iccrea Cooperative Banking Group have been prepared in accordance with the accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These interim consolidated financial statements are compliant with the provisions of IAS 34 and have been prepared using the formats and main tables provided for in Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 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 IASs/IFRSs applied in preparing the consolidated financial statements were those in force at June 30, 2019, as endorsed by the European Commission (including the interpretations issued by the IFRIC).

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2019:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	**IFRS 16 Leases** The new standard, which replaces IAS 17, modifies the definition of a lease and establishes that lessees shall recognize assets and liabilities for a lease. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents transactions. This information therefore gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leases from service contracts, specifying as discriminants the identification of the asset, the right to substitute it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the identified asset. Transactions excluded from the scope of application of the principle include, in particular: • licenses of intellectual property granted by a lessor within the scope of IFRS 15 “Revenue from Contracts with Customers“; • “rights held by a lessee under licensing agreements within the scope of IAS 38 “Intangible Assets“. The standard also permits the application certain exceptions to the recognition requirement: • short-term leases, with a contractual term of 12 months or less; • leases in which the underlying asset is of low value. More specifically, under the definition in IFRS 16, a lease is a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The two conditions necessary for the existence of a lease are: • the existence of an identified and physically distinct asset; • the right to control the use of the asset, which is the lessee’s right to obtain substantially all the economic benefits deriving from the use of the asset during the period of use and the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. There lessor must therefore not have a substantive right to substitute the asset. In addition to “leases” proper, lease contracts also include, for example, contracts for rent, hire, lease and free loans. For a contract that contains a lease component and additional non-lease components (such as in the case of the lease of an asset and the provision of maintenance services), the standard establishes that each lease component shall be recognized separately from the non-lease components. The consideration shall therefore be allocated to the various components based on their relative stand-alone prices, adopting the rationale of IFRS 15 for service contracts. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for all lease components a as a single lease component. The most significant changes introduced with the standard regard the lessee, who shall apply a single accounting model, eliminating the distinction between operating lease and finance lease, with an impact on both the income statement and the balance sheet. For any lease, the lessee shall recognize, respectively, under liabilities and assets in the balance sheet: • a lease liability, equal to the present value of future payments determined using the discount rate specified at the inception of the lease; • a right-of-use asset, equal to the lease liability plus initial direct costs.	Annual reporting periods beginning on or after January 1, 2019

	The lessee must measure the right-of-use asset by applying the cost model. The income statement will essentially reflect the depreciation charge for the right-of-use asset, recognized under operating expenses, and the interest accrued on the lease liability, recognized in net interest income. The distinction between operating and finance leases remains for the lessor, for which the approach under IFRS 16 does not introduce substantial changes with respect to IAS 17. The standard was endorsed by the European Commission on November 9, 2017 with Regulation no. 2017/1986 and takes affect starting from January 1, 2019. For the initial application of the standard, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recognizing the impact in shareholders' equity at January 1, 2018 as if the IFRS 16 had always been applied, with the restatement of the comparative data. The modified retrospective option provides instead: • for 2018 the application of IAS 17 without the need to restate the comparative data; • for 2019 the application of IFRS 16 with the recognition in shareholders' equity at January 1, 2019 (under reserves) of the cumulative effect of the new standard as at the date of initial application only of existing contracts at that date and the disclosure of the impact of initial application of the standard in the notes to the financial statements. The Group has elected to apply the modified retrospective option, which does not require the restatement of the comparative figures for 2018.	
498/2018	**Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation** The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied. More specifically: • for financial assets, they also permit measurement at amortized cost or, depending on the business model, at fair value through other comprehensive income, for loans that, in the event of early repayment, require a lender to make a payment (negative compensation payment); • for financial liabilities measured at amortized cost, they clarify the accounting for a modification that does not result in the derecognition of the financial liability. In these cases, at the date of the modification the adjustment of the amortized cost of the liability, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, shall be recognized in profit or loss.	Annual reporting periods beginning on or after January 1, 2019
1595/2018	**IFRIC 23 – Accounting for uncertainties in income taxes** The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019
237/2019	**Amendments to IAS28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019
402/2019	**Amendments to IAS 19** The amendments specify how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019
412/2019	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2022
To be determined	**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
To be determined	**Amendments to IFRS 3: Definition of a business** 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
To be determined	**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

Compliance with IFRS 16

On January 13, 2016, the IASB published IFRS 16 – Leases, which is intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard establishes a new definition of lease and introduces a criterion based on the notion of control (right of use) of an identified asset for a specified period of time. This definition makes it possible to distinguish lease contracts from service supply contracts, identifying the discriminating features of leases as:

- the identification of the asset;
- the right to substitute the asset;
- the right to obtain substantially all the economic benefits from the use of the asset;
- the right to direct the use of the asset underlying the contract.

That said, it follows that also contracts for rent, hire and lease fall within the scope of application of the new rules.

Significant changes have been introduced in the accounting for lease transactions in the financial statements of the lessee.

The standard establishes a single accounting model for the recognition and measurement of leases for the lessee, providing for the recognition of the right of use (RoU) in respect of the leased asset, including operating assets, with the concomitant recognition of a liability for lease payments still to be paid to the lessor. At the same time, the new standard provides for the recognition in profit or loss of the depreciation charges for the “right of use” asset and the interest expense accrued on the liability.

A number of changes have also been made to the requirements for disclosures in the notes to the financial statements, which among other things must at least contain:

- a breakdown of the different classes of leased assets;
- a maturity analysis of the lease liabilities;
- relevant information for the assessment of leases (for example the presence or absence of termination options, extension options, etc.).

With regard to the recognition of rights of use in respect of software, the Iccrea Cooperative Banking Group intends to exclude such rights from the scope of application of IFRS 16, due in part to the clarifications provided by the Cloud Computing Arrangement issued by IFRIC in September 2018.

The application of the new standard gives rise to:

- an increase in assets due to the recognition of the right of use;
- an increase in liabilities due to the recognition of lease liabilities for future lease payments through to the expiry of the contract;
- a reduction in administrative expenses due to non-recognition of lease payments as previously required under IAS 17;
- an increase in financial expense for interest expense on the lease liabilities;
- an increase in depreciation charges for the rights of use, which are systematically depreciated on a straight-line basis over the useful life of the assets.

Conversely, the introduction of the standard does not involve significant changes for lessors.

These effects do not change the overall cash flows and total final cost of the lease. With regard to the overall cost, the impact on profit or loss does not vary over the term of the lease contract compared with the treatment under previous accounting standards, but only distributes them differently over time.

During 2019 the Group began a specific project for the implementation of IFRS 16 at all Group companies which includes:

- organizational measures;
- application measures;
- staff training initiatives.

A. Leases within the scope of IFRS 16

In order to account properly for leases under the provisions of IFRS 16, both in the transition to the new standard and on an ongoing basis, it is necessary to:

- identify and manage the operating leases outstanding at January 1, 2019 that meet the definition of lease under IFRS 16 and the contracts to which the exceptions apply;
- calculate the value of the right of use acquired with the lease and the lease liability.

The analysis of the contracts falling within the scope of application of the standard regarded in particular:

- real estate;
- cars;
- hardware;
- other technologies (tablets, telephones, ATMs, etc.).

Real estate had the greatest impact in terms of an increase in property, plant and equipment as a result of the recognition of rights of use and the related lease liabilities. The buildings are mostly used for banking (branches) and headquarters operations.

Other leases regard assets such as cars and hardware. Auto leases regard refer cars assigned to employees or Group companies for business use. These contracts usually take the form of "long-term rentals", and are therefore of multi-year duration and usually do not include a purchase option.

B. Transition rules

The Group has adopted the "cumulative catch-up approach" for first-time adoption of the new standard.

Under the cumulative catch-up method, the lessee shall apply 'IFRS 16 to its leases, retrospectively recognizing the cumulative impact of the initial application of IFRS 16 at the initial application date, without restating comparative information and recognizing the cumulative effect of FTA as an adjustment to retained earnings (or other component of equity, as appropriate) at the date of initial application (paragraph C7). The lessee shall (p. C8):

- recognize a lease liability at the date of initial application for leases previously classified as an operating lease, measuring that lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application;
- recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease, choosing, on a lease-by-lease basis, to measure that right-of-use asset at either:
    - its carrying amount as if IFRS 16 had always been applied, but discounted using the lessee's incremental borrowing rate at the date of initial application (cumulative catch-up method – option 1); or
    - an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments (cumulative catch-up method – option 2).

The Group has elected to apply option 2.

In addition, it is possible to apply a number of specific transition rules and practical expedients to leases that had previously been classified as operating leases.

The expedients that the Group has elected to adopt at first-time application are as follows:

- the exclusion from the scope of application of leases with a residual term of less than 12 months from the date of initial application (short-term leases);
- the exclusion from the scope of application of leases for which the underlying asset has a market value when new equal to or less than €5 thousand (low-value leases);
- assessment of the onerous nature of leases performed pursuant to IAS 37 immediately prior to the date of initial application of the standard.

The lease payments in respect of short-term and low-value leases are recognized in profit or loss as they were in the past.

C. Term of leases – determination of useful life

The term of a lease is determined on the basis of the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The duration of the useful life of right-of-use assets was defined both at first-time application of the standard and at initial recognition of the leases, based on the facts and circumstances existing at that particular date. The reasons for any exercise of the options provided for in the contracts were therefore evaluated.

The following provides a number of rules established for the types of assets involved in the most common and significant leases held within the Iccrea Cooperative Banking Group.

1. Real estate

The identification of the lease term is a very important issue since the form, legislation and commercial practices surrounding real estate leases vary significantly. Based on historical experience, the Group has included, in addition to the non-cancellable period, the first contractual renewal period in the useful life in the event that renewal depends exclusively on the lessee.

Accordingly, both on the date of FTA and on initial recognition of a lease under IFRS 16, the first reasonably certain contract renewal was considered, unless there were actual and concrete facts and circumstances that would lead to a different conclusion. In the case of a rental contract for a building with a term of 6 years with a tacit renewal option at the end of the first six-year period, the term considered for the determination of the useful life of the right-of-use asset is 12 years, unless there are elements or specific situations within the contract that would lead to a different conclusion.

2. Automobiles

For this type of lease, the useful life considered at FTA and at initial recognition of leases within the scope of application is considered to be the effective term of the contract.

D. Discounting lease liabilities

As required by IFRS 16, the discount rate is equal to the rate implicit in the lease, where this can be determined.

Alternatively, the rate used in determining intercompany fund transfer pricing (FTP) is adopted. The model adopted by the Group is based on a building block approach, the components of which reflect the type of operations and the management choices made for strategic purposes in the management of interest rate risk and liquidity risk. The framework is reviewed at least annually, discussed within the Finance Committee in line with the Strategic Plan and approved by the Board of Directors of the Parent Company. The customer rate is equal to the sum of the cost of funding and a commercial spread.

E. Lease components and non-lease components

Where possible, non-lease components are accounted for separately from the lease components. Where it is not possible to separate the two types of component or where the non-lease components are not material, they have been included in the determination of the lease liability and the associated right-of-use asset.

F. The impact of initial application of IFRS 16

The application of the new standard using the cumulative catch-up approach resulted in an increase at January 1, 2019 in both assets due to the recognition of new rights of use amounting to about €282 million and in liabilities as a result of lease liabilities of about €281 million. The difference between the two values is attributable to the reclassification of accruals/deferrals.

The application of the cumulative catch-up transition method did not have any impact on shareholders' equity.

At June 30, 2019 right-of-use assets amounted to about €271 million, while lease liabilities came to around €266 million.

Section 2: General preparation principles

The interim consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements, along with the report on operations and the performance and 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 IAS 34, with the application of the recognition and measurement criteria of 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.

In compliance with the provisions of IAS 1, these consolidated 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 recent establishment of the Cooperative Banking Group based on a system of cross-guarantees, on which extensive discussion is provided in the report on operations.

The establishment of the Cooperative Banking Group took effect for accounting purposes as from January 1, 2019. Accordingly, the comparative figures for the previous year are represented by the balances of the previous Iccrea Banking Group.

Content of the financial statements and the explanatory

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 savings shares), capital reserves, earnings 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.

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, with particular reference to IAS 34 Interim Financial Reporting, 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 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;
- the quantification of provisions for legal and tax risks and charges.

The main factors estimated for each type of item 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).

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 – Scope and methods of consolidation

The scope of consolidation of the Iccrea Cooperative Banking Group includes:

- the financial statements of Iccrea Banca S.p.A. in its capacity as Parent Company and Central Body;
- the financial statements of the 140 affiliated mutual banks, which together with Iccrea Banca S.p.A. 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 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 (A)	Equity investment		% share of votes
				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 di Monastier e del Sile - Credito Cooperativo S.C.	Monastier di Treviso				
9	BCC Umbria - Credito Cooperativo S.C.	Perugia				
10	Banca Cremasca e Mantovana - Credito Cooperativo S.C.	Crema				
11	Banca della Marca Credito Cooperativo S.C.	Orsago				
12	Credito Cooperativo Friuli (CrediFriuli) S.C.	Udine				
13	BCC dell'Adriatico Teramano S.C.	Atri				
14	Banca di Taranto – Banca di Credito Cooperativo S.C.	Taranto				
15	Banca del Catanzarese - Credito Cooperativo S.C.	Marcellinara				
16	BCC di Massafra S.C.	Massafra				
17	BCC di Cagliari S.C.	Cagliari				
18	Banca di Andria Di Credito Cooperativo S.C.	Andria				
19	BCC Agrigentino S.C.	Agrigento				
20	BCC di Napoli S.C.	Naples				
21	BCC di Putignano S.C.	Putignano				
22	Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	Pistoia				
23	BCC di Borghetto Lodigiano S.C.	Borghetto Lodigiano				
24	BCC di Valledolmo S.C.	Valledolmo				
25	Banca di Ancona e Falconara Marittima Credito Cooperativo S.C.	Ancona				
26	BCC di Montepaone S.C.	Montepaone				
27	BCC di Basciano S.C.	Basciano				
28	Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	Vallo Della Lucania				
29	BCC della Valle del Trigno S.C.	San Salvo				
30	Valpolicella Benaco Banca Credito Cooperativo S.C.	Costermano Sul Garda				
31	Banca Veronese Credito Cooperativo di Concamarise S.C.	Bovolone				
32	Banca Centropadana Credito Cooperativo S.C.	Lodi				
33	Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	Firenzuola				
34	BCC di Roma S.C.	Rome				
35	BCC Brianza e Laghi S.C.	Lesmo				
36	BCC di Altofonte e Caccamo S.C.	Altofonte				
37	Banca di Anghiari E Stia - Credito Cooperativo S.C.	Anghiari				
38	BCC di Avetrana S.C.	Avetrana				
39	BCC Pordenonese S.C.	Azzano Decimo				
40	Banca di Pescia e Cascina - Credito Cooperativo S.C.	Pescia				
41	BCC di Arborea S.C.	Arborea				
42	BCC Campania Centro - Cassa Rurale e Artigiana S.C.	Battipaglia				
43	BCC di Bellegra S.C.	Bellegra				
44	Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	Binasco				

		Headquarters	Type of relationship (A)	Equity investment		% share of votes
				Investor	% holding	(B)
45	Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	Brendola				
46	BCC di Busto Garolfo e Buguggiate S.C.	Busto Garolfo				
47	BCC di Buonabitacolo S.C.	Buonabitacolo				
48	Banca di Verona Credito Cooperativo Cadidavid S.C.	Verona				
49	Cassa Rurale e Artigiana di Cantù BCC S.C.	Cantù				
50	BCC di Capaccio Paestum e Serino S.C	Capaccio Paestum				
51	BCC Abruzzese - Cappelle Sul Tavo S.C.	Cappelle Sul Tavo				
52	BCC del Basso Sebino S.C.	Capriolo				
53	BCC di Carate Brianza S.C.	Carate Brianza				
54	Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	Caravaggio				
55	BCC di Terra D'Otranto S.C.	Carmiano				
56	Banca Alpi Marittime Credito Cooperativo Carrù S.C.	Carrù				
57	BCC di Venezia, Padova E Rovigo - Banca Annia S.C.	Cartura				
58	BCC di Milano S.C.	Carugate				
59	Credito Padano Banca di Credito Cooperativo S.C.	Cremona				
60	Banca dei Sibillini - Credito Cooperativo Di Casavecchia S.C.	Pieve Torina				
61	Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	Reggello				
62	Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	Castellana Grotte				
63	BCC di Castiglione Messer Raimondo e Pianella S.C.	Castiglione Messer Raimondo				
64	Banca del Piceno Credito Cooperativo S.C.	Acquaviva Picena				
65	Cereabanca 1897 Credito Cooperativo S.C.	Cerea				
66	Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	Chiusi				
67	BCC di Cittanova S.C.	Cittanova				
68	BCC dell'Oglio e Del Serio S.C.	Calcio				
69	Banca della Valsassina Credito Cooperativo S.C.	Cremeno				
70	BCC di Fano S.C.	Fano				
71	BCC di Alba, Langhe, Roero e Del Canavese S.C.	Alba				
72	Credito Cooperativo Cassa Rurale Ed Artigiana Di Erchie S.C.	Erchie				
73	Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	Faenza				
74	Banca di Filottrano - Credito Cooperativo di Filottrano e Camerano S.C.	Filottrano				
75	BCC di Gaudiano Di Lavello S.C.	Lavello				
76	Banca di Pisa e Fornacette Credito Cooperativo S.C.	Pisa				
77	BCC di Gambatesa S.C.	Gambatesa				
78	BCC Agrobresciano S.C.	Ghedi				
79	BCC del Crotonese - Credito Cooperativo S.C.	Crotone				
80	BCC Basilicata - Credito Cooperativo Di Laurenzana e Comuni Lucani S.C.	Laurenzana				
81	BCC Valle Del Torto S.C.	Lercara Friddi				
82	BCC di Leverano S.C.	Leverano				
83	BCC di Canosa - Loconia S.C.	Canosa Di Puglia				
84	BCC di Lezzeno S.C.	Lezzeno				
85	Chiantibanca - Credito Cooperativo S.C.	Monteriggioni				
86	BCC del Garda - BCC Colli Morenici Del Garda S.C.	Montichiari				
87	BCC di Mozzanica S.C.	Mozzanica				
88	BCC di Marina Di Ginosa S.C.	Ginosa				
89	BCC di Nettuno S.C.	Nettuno				
90	BCC del Metauro S.C.	Terre Roveresche				
91	BCC di Ostra e Morro D'alba S.C.	Ostra				
92	BCC di Ostra Vetere S.C.	Ostra Vetere				
93	BCC di Ostuni S.C.	Ostuni				
94	BCC di Oppido Lucano E Ripacandida S.C.	Oppido Lucano				
95	BCC di Pachino S.C.	Pachino				
96	Banca di Udine Credito Cooperativo S.C.	Udine				
97	Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	Paliano				
98	Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	Pietrasanta				
99	Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	Sant'Elena				
100	BCC di Pergola e Corinaldo S.C.	Pergola				
101	BCC Vicentino - Pojana Maggiore S.C.	Pojana Maggiore				
102	BCC di Pontassieve S.C.	Pontassieve				
103	Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
104	BCC di Pratola Peligna S.C.	Pratola Peligna				
105	Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
106	BCC di Recanati e Colmurano S.C.	Recanati				
107	Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	Ripatransone				

		Headquarters	Type of relationship (A)	Equity investment		% share of votes
				Investor	% holding	(B)
108	Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
109	BCC di Riano S.C.	Riano				
110	BCC di San Biagio Platani S.C.	San Biagio Platani				
111	Banca San Giorgio Quinto Valle Agno - Credito Cooperativo S.C.	Fara Vicentino				
112	Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
113	BCC di Formello e Trevignano Romano S.C.	Formello				
114	Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
115	BCC di Santeramo In Colle S.C.	Santeramo In Colle				
116	Banca TEMA - Terre Etrusche e di Maremma S.C.	Orbetello				
117	BCC di Scafati e Cetara S.C.	Scafati				
118	BCC Bergamo e Valli S.C.	Sorisole				
119	BCC di Spinazzola S.C.	Spinazzola				
120	BCC di Staranzano e Villesse S.C.	Staranzano				
121	Banca Cras Credito Cooperativo Toscano - Siena S.C.	Sovicille				
122	Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia				
123	Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
124	BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
125	BCC della Valle del Fitalia S.C.	Longi				
126	Credito Trevigiano – Banca di Credito Cooperativo - S.C.	Vedelago				
127	Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
128	BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
129	Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
130	BCC Don Stella di Resuttano S.C.	Resuttano				
131	BCC dei Colli Albani S.C.	Genzano Di Roma				
132	BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
133	BCC Mutuo Soccorso di Gangi S.C.	Gangi				
134	Banca San Francesco Credito Cooperativo S.C.	Canicattì				
135	BCC San Giuseppe di Mussomeli S.C.	Mussomeli				
136	BCC S. Giuseppe di Petralia Sottana S.C.	Petralia Sottana				
137	BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
138	BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
139	BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
140	RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
141	BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	San Marco Dei Cavoti				
142	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca S.p.A.	75.00	75.00
143	Iccrea BancaImpresa S.p.A.	Rome	1	Iccrea Banca S.p.A.	99.42	99.42
				Banca di Monastier e del Sile - Credito Cooperativo S.C.	0.03	0.03
				Banca della Marca Credito Cooperativo S.C.	0.02	0.02
				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 Cras Credito Cooperativo Toscano - Siena 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.	0.00	0.00
144	BCC Factoring S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100.00	100.00
145	Banca Sviluppo S.p.A.	Rome	1	Iccrea Banca S.p.A.	68.58	68.58
				BCC di Roma S.C.	1.44	1.44
				BCC di Alba, Langhe, Roero e Del Canavese S.C.	0.76	0.76
				BCC Pordenonese S.C.	0.22	0.22
				BCC G. Toniolo di San Cataldo S.C.	0.15	0.15
				Emil Banca - Credito Cooperativo S.C.	0.70	0.70
				BCC di Bari S.C.	0.03	0.03
				Credito Cooperativo Mediocrati S.C.	0.12	0.12
				BCC di Buccino e dei Comuni Cilentani S.C.	0.12	0.12
				Banca di Monastier e del Sile - Credito Cooperativo S.C.	0.52	0.52
				BCC Umbria - Credito Cooperativo S.C.	0.21	0.21
				Banca della Marca Credito Cooperativo S.C.	0.88	0.88
				Credito Cooperativo Friuli (CrediFriuli) S.C.	0.16	0.16
				Bcc dell'Adriatico Teramano	0.04	0.04
				Banca di Taranto	0.02	0.02
				Bcc del Catanzarese	0.04	0.04
				Bcc Massafra	0.02	0.02

	Headquarters	Type of relationship (A)	Equity investment		% share of votes
			Investor	% holding	(B)
			Bcc di Cagliari	0.04	0.04
			Banca di Andria Di Credito Cooperativo S.C.	0.02	0.02
			BCC Agrigentino	0.02	0.02
			Bcc Putignano	0.01	0.01
			Bcc Borghetto Lodigiano	0.07	0.07
			BCC di Valledolmo S.C.	0.01	0.01
			BCC di Montepaone S.C.	0.02	0.02
			Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.17	0.17
			Bcc Valle del Trigno	0.04	0.04
			Valpolicella Benaco Banca Credito Cooperativo S.C.	0.24	0.24
			Banca Veronese Credito Cooperativo di Concamarise	0.23	0.23
			Banca Centropadana	0.39	0.39
			Bcc di Altofonte e Caccamo	0.02	0.02
			Bcc Anghiari e Stia	0.03	0.03
			Bcc Pescia e Cascina	0.20	0.20
			Bcc di Arborea	0.06	0.06
			BCC di Cittanova S.C.	0.05	0.05
			BCC di Fano S.C.	0.18	0.18
			BCC di Gambatesa S.C.	0.03	0.03
			RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	0.45	0.45
			BCC di Mozzanica S.C.	0.01	0.01
			BCC del Metauro S.C.	0.11	0.11
			BCC di Ostuni S.C.	0.03	0.03
			BCC di Pachino S.C.	0.09	0.09
			BCC di Riano S.C.	0.02	0.02
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.13	0.13
			Banca di Pesaro Credito Cooperativo S.C.	0.09	0.09
			Banca San Francesco Credito Cooperativo S.C.	0.08	0.08
			BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.10	0.10
			Bcc di Bellegra	0.05	0.05
			Cassa Rurale ed Artigiana di Brendola - Credito Cooperativo	0.56	0.56
			Banca di Verona Credito Cooperativo Cadidavid S.C.	0.21	0.21
			Cassa Rurale e Artigiana di Cantù BCC S.C.	0.43	0.43
			Banca di Credito Cooperativo di Capaccio Paestum e Serino S.C.	0.09	0.00
			BCC del Basso Sebino S.C.	0.06	0.06
			BCC Abruzzese - Cappelle Sul Tavo S.C.	0.09	0.09
			BCC di Carate Brianza S.C.	0.38	0.38
			BCC di Terra D'Otranto S.C.	0.05	0.05
			Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.35	0.35
			BCC di Milano S.C.	0.46	0.46
			Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.07	0.07
			Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.11	0.11
			BCC di Castiglione Messer Raimondo e Pianella S.C	0.18	0.18
			Cereabanca 1897 Credito Cooperativo S.C.	0.14	0.14
			Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.30	0.30
			BCC di Cittanova S.C.	0.05	0.05
			BCC di Fano S.C.	0.18	0.18
			Credito Cooperativo Cassa Rurale Ed Artigiana Di Erchie S.C.	0.03	0.03
			Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	0.66	0.66
			BCC di Gaudiano Di Lavello S.C.	0.03	0.03
			BCC di Gambatesa S.C.	0.03	0.03
			BCC Agrobresciano S.C.	0.17	0.17
			Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.36	0.36
			BCC del Crotonese - Credito Cooperativo S.C.	0.04	0.04
			BCC Basilicata - Credito Cooperativo Di Laurenzana e Comuni Lucani S.C.	0.05	0.05
			BCC di Leverano S.C.	0.06	0.06
			BCC di Canosa - Loconia S.C.	0.04	0.04
			BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.23	0.23
			BCC di Mozzanica S.C.	0.01	0.01
			BCC di Marina Di Ginosa S.C.	0.03	0.03
			BCC di Nettuno S.C.	0.05	0.05
			BCC del Metauro S.C.	0.11	0.11
			BCC di Ostra Vetere S.C.	0.05	0.05
			BCC di Ostuni S.C.	0.03	0.03
			BCC di Oppido Lucano E Ripacandida S.C.	0.03	0.03
			BCC di Pachino S.C.	0.09	0.09

		Headquarters	Type of relationship (A)	Equity investment		% share of votes
				Investor	% holding	(B)
				Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.03	0.03
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.24	0.24
				Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	0.84	0.84
				BCC di Pergola e Corinaldo S.C.	0.09	0.09
				BCC Vicentino - Pojana Maggiore S.C.	0.25	0.25
				BCC di Pontassieve S.C.	0.12	0.12
				Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.10	0.10
				BCC di Pratola Peligna S.C.	0.09	0.09
				Centromarca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	0.91	0.91
				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 Riano S.C.	0.02	0.02
				BCC di San Biagio Platani S.C.	0.03	0.03
				BCC di Formello e Trevignano Romano S.C.	0.07	0.07
				Banca di Pesaro Credito Cooperativo S.C.	0.09	0.09
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.09	0.09
				BCC di Santeramo In Colle S.C.	0.09	0.09
				BCC di Scafati e Cetara S.C.	0.06	0.06
				BCC Bergamo e Valli S.C.	0.13	0.13
				BCC di Spinazzola S.C.	0.03	0.03
				BCC di Staranzano e Villesse S.C.	0.12	0.12
				Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.29	0.29
				Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.05	0.05
				BCC di Triuggio e della Valle del Lambro S.C.	0.08	0.08
				Banca Alta Toscana Credito Cooperativo S.C.	0.32	0.32
				BCC Bergamasca e Orobica S.C.	0.25	0.25
				BCC Don Stella di Resuttano S.C.	0.01	0.01
				BCC Mutuo Soccorso di Gangi S.C.	0.02	0.02
				Banca San Francesco Credito Cooperativo S.C.	0.08	0.08
				BCC San Giuseppe di Mussomeli S.C.	0.01	0.01
				BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.05	0.05
				BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.09	0.09
				BCC degli Ulivi - Terra di Bari S.C.	0.05	0.05
				BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	0.07	0.07
				Banca TEMA - Terre Etrusche e di Maremma S.C.	0.32	0.32
				BCC di Venezia, Padova E Rovigo - Banca Annia S.C.	0.40	0.40
				BCC dei Colli Albani S.C.	0.06	0.06
				Banca del Piceno Credito Cooperativo S.C.	0.12	0.12
				Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	0.03	0.03
146	Banca Mediocredito del F.V.G. S.p.A.	Udine	1	Iccrea Banca S.p.A.	26.84	26.84
			1	Iccrea BancaImpresa S.p.A.	24.71	24.71
147	BCC Gestione Crediti S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
148	BCC Solutions S.p.A.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
149	BCC Beni Immobili S.r.l.	Rome	1	Iccrea Banca S.p.A.	100.00	100.00
150	BCC Lease S.p.A.	Rome	1	Iccrea BancaImpresa S.p.A.	100.00	100.00
151	BCC CreditoConsumo S.p.A.	Rom	1	Iccrea Banca S.p.A.	96.00	96.00
152	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
153	Coopersystem Societa' Cooperativa	Florence	1	Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.00	5.00
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.01	5.00
				Chiantibanca - Credito Cooperativo S.C.	0.09	5.00
				Banca del Valdarno - Credito Cooperativo S.C.	0.00	5.00
				Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.01	5.00
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	5.00
				BCC di Pontassieve S.C.	0.00	5.00
				Banca dell'Elba - Credito Cooperativo S.C.	0.01	5.00
				Banca del Valdarno - Credito Cooperativo S.C.	0.08	5.00
				Banca Alta Toscana Credito Cooperativo S.C.	0.40	5.00
				Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.06	5.00
				Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.05	5.00
				BCC Umbria - Credito Cooperativo S.C.	0.04	5.00
				Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.01	5.00
				Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	5.00
154	Sigest S.r.l.	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.00	100.00

		Headquarters	Type of relationship (A)	Equity investment		% share of votes
				Investor	% holding	(B)
155	Sinergia - Sistema di Servizi – S.c.a.r.l.	Milan	1	BCC di Roma S.C.	40.91	0.59
				BCC di Milano S.C.	2.92	0.59
				BCC dell'Oglio e Del Serio S.C.	1.75	0.59
				Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	1.75	0.59
				Cassa Rurale - BCC di Treviglio S.C.	1.17	0.59
				Cassa Rurale e Artigiana di Brendola Credito Cooperativo S.C.	1.17	0.59
				BCC Bergamo e Valli S.C.	1.17	0.59
				BCC Brianza e Laghi S.C.	1.17	0.59
				Credito Padano Banca di Credito Cooperativo S.C.	1.17	0.59
				Banca Centropadana Credito Cooperativo S.C.	1.17	0.59
				BCC di Carate Brianza S.C.	1.17	0.59
				Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	0.58	0.59
				Cassa Rurale e Artigiana di Cantù BCC S.C.	0.58	0.59
				BCC di Mozzanica S.C.	0.58	0.59
				BCC del Basso Sebino S.C.	0.58	0.59
				BCC Agrobresciano S.C.	0.58	0.59
				BCC del Garda - BCC Colli Morenici Del Garda S.C.	0.58	0.59
				BCC di Lezzeno S.C.	0.58	0.59
				BCC Bergamasca e Orobica S.C.	0.58	0.59
				Banca Veronese Credito Cooperativo di Concamarise S.C.	0.58	0.59
				Banca della Valsassina Credito Cooperativo S.C.	0.58	0.59
				BCC di Busto Garolfo e Buguggiate S.C.	0.58	0.59
				BCC di Triuggio e della Valle del Lambro S.C.	0.58	0.59
				Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	0.58	0.59
				BCC di Borghetto Lodigiano S.C.	0.58	0.59
				Banca Cremasca e Mantovana - Credito Cooperativo S.C.	0.58	0.59
				Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.03	0.59
				Chiantibanca - Credito Cooperativo S.C.	0.02	0.59
				Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	0.59
				BCC Umbria - Credito Cooperativo S.C.	0.02	0.59
				Banca Cras Credito Cooperativo Toscano - Siena S.C.	0.02	0.59
				Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	0.02	0.59
				Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	0.02	0.59
				Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.02	0.59
				BCC di Castiglione Messer Raimondo e Pianella S.C.	0.02	0.59
				Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.02	0.59
				Credito Cooperativo Mediocrati S.C.	0.02	0.59
				BCC del Crotonese - Credito Cooperativo S.C.	0.02	0.59
				Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	0.02	0.59
				Banca del Catanzarese - Credito Cooperativo S.C.	0.02	0.59
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.02	0.59
				BCC San Michele di Caltanissetta e Pietraperzia S.C.	0.01	0.59
				BCC G. Toniolo di San Cataldo S.C.	0.01	0.59
				BCC San Giuseppe di Mussomeli S.C.	0.01	0.59
				BCC di Ostuni S.C.	0.01	0.59
				BCC di Gambatesa S.C.	0.01	0.59
				BCC Don Stella di Resuttano S.C.	0.01	0.59
				BCC di Pachino S.C.	0.01	0.59
				BCC di Cittanova S.C.	0.01	0.59
				BCC Abruzzese - Cappelle Sul Tavo S.C.	0.01	0.59
				BCC di Pratola Peligna S.C.	0.01	0.59
				BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	0.01	0.59
				Banca San Francesco Credito Cooperativo S.C.	0.01	0.59
				BCC di San Biagio Platani S.C.	0.01	0.59
				BCC Mutuo Soccorso di Gangi S.C.	0.01	0.59
				Banca del Valdarno - Credito Cooperativo S.C.	0.01	0.59
				Banca Alta Toscana Credito Cooperativo S.C.	0.01	0.59
				BCC di Leverano S.C.	0.01	0.59
				BCC Vicentino - Pojana Maggiore S.C.	0.01	0.59
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	0.59
				BCC di Altofonte e Caccamo S.C.	0.01	0.59
				Banca Alpi Marittime Credito Cooperativo Carrù S.C.	0.01	0.59
				BCC di Terra D'Otranto S.C.	0.01	0.59
				BCC S. Giuseppe di Petralia Sottana S.C.	0.01	0.59
				BCC di Spinazzola S.C.	0.01	0.59
				BCC Campania Centro - Cassa Rurale e Artigiana S.C.	0.01	0.59

		Headquarters	Type of relationship (A)	Equity investment		% share of votes
				Investor	% holding	(B)
				BCC degli Ulivi - Terra di Bari S.C.	0.01	0.59
				BCC di Arborea S.C.	0.01	0.59
				Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	0.01	0.59
				BCC di Nettuno S.C.	0.01	0.59
				BCC di Canosa - Loconia S.C.	0.01	0.59
				BCC di Pontassieve S.C.	0.01	0.59
				BCC della Valle del Fitalia S.C.	0.01	0.59
				Credito Cooperativo Valdarno Fiorentino Banca Di Cascia S.C.	0.01	0.59
				BCC di Basciano S.C.	0.01	0.59
				BCC della Valle del Trigno S.C.	0.01	0.59
				BCC di Formello e Trevignano Romano S.C.	0.01	0.59
				BCC di Riano S.C.	0.01	0.59
				BCC di Bellegra S.C.	0.01	0.59
				BCC dei Colli Albani S.C.	0.02	0.59
				BCC dell'Adriatico Teramano S.C.	0.01	0.59
				Valpolicella Benaco Banca Credito Cooperativo S.C.	0.01	0.59
				Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.01	0.59
				BCC di Montepaone S.C.	0.01	0.59
				BCC di Buccino e dei Comuni Cilentani S.C. e dei Comuni Cilentani S.C.	0.02	0.59
				Banca di Taranto – Banca di Credito Cooperativo S.C.	0.01	0.59
				BCC Agrigentino S.C.	0.01	0.59
				Banca del Cilento di Sassano e Vallo Di Diano e Della Lucania - Credito Cooperativo S.C.	0.01	0.59
				BCC di Cagliari S.C.	0.01	0.59
				BCC di Valledolmo S.C.	0.01	0.59
				Banca di Monastier e del Sile - Credito Cooperativo S.C.	0.01	0.59
				Banca della Marca Credito Cooperativo S.C.	0.01	0.59
				BCC di Bari S.C.	0.01	0.59
				Iccrea Banca S.p.A.	0.01	0.59
				BCC di Napoli S.C.	0.01	0.59
				Banca di Andria Di Credito Cooperativo S.C.	0.01	0.59
				BCC di Putignano S.C.	0.01	0.59
				BCC di Buonabitacolo S.C.	0.01	0.59
				BCC di Gaudiano Di Lavello S.C.	0.01	0.59
156	Fondo Securis Real Estate	Rome	4	Iccrea Banca S.p.A.	56.55	56.55
				Iccrea BancaImpresa S.p.A.	21.47	21.47
157	Fondo Securis Real Estate II	Rome	4	Iccrea Banca S.p.A.	84.78	84.78
158	Fondo Securis Real Estate III	Rome	4	Iccrea BancaImpresa S.p.A.	19.92	19.92
				Iccrea Banca S.p.A.	67.25	67.25
159	Securfondo	Rome	4	Iccrea Banca S.p.A.	54.39	54.39
160	Fondo Il Ruscello	Milan	4	BCC di Milano S.C.	100.00	100.00
161	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 S.C.	6.67	6.67
				BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	10.56	10.56
162	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
163	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 n. 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 mutual 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 mutual 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, as defined in Article 2 paragraph 4, letter a) of Directive 77/780/EEC:

- the objectives of the central body and the entities affiliated to it are the same;
- 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 mutual 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 mutual 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[9] notwithstanding the provisions of those accounting standards.

An authoritative option has been issued on the consolidation of the financial statements of mutual banking groups in application of the above regulatory and financial reporting provisions.

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;

[9] 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 S.p.A. in its capacity as Parent Company and Central Body;
- the financial statements of the 140 affiliated mutual banks, which together with Iccrea Banca S.p.A. 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 retained at the date control is lost must be recognized at fair value.

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 balance sheet date at the lower of carrying amount or fair value less costs to sell.

Non-material subsidiaries are not consolidated.[10] 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 other comprehensive income regarding these investees is presented in Group comprehensive income. In addition, if an associate recognizes a change that is recognized directly in 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

[10] 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.

have rights to the net assets of the arrangement. Investments in joint arrangements are accounted for using the equity method. At June 30, 2019 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, a control relationship has been deemed to exist in the following cases:

- the involvement of the investor/sponsor in structuring the operation;
- the participation of the Group companies on the committees provided for in the fund's rules (participants' advisory committee), which have the power to direct/govern the relevant activities of the fund and/or control the activities of the fund manager;
- the presence of contractual relationships that tie the fund to the Group for the subscription/placement/sale of its units.

The consolidated real estate investment funds are Securfondo, Fondo Securis Real Estate, Fondo Securis Real Estate II, Fondo Securis Real Estate III, Fondo Sistema-BCC, Fondo Asset Bancari V and Fondo II Ruscello.

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 and equipment in the consolidated financial statements, recognizing any increases/decreases under "Net gain/loss from valuation at fair value of property and equipment" in the income statement.

B. Structured entities – securitizations

In the SPVs, a control relationship has been deemed to exist in the following cases:

- the involvement of the Group companies in structuring of the operation (originator/investor/servicer/facility provider);
- the subscription of substantially all of the ABSs issued by the SPV by Group companies.

The fourth securitization managed by the vehicle Lucrezia Securitisation S.r.l. (the Lucrezia 4 operation) has been consolidated since 2017, of which Iccrea Banca has 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 Srl 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

Subsidiaries	Non-controlling interests	Dividends distributed to non-controlling interests
Banca Mediocredito del F.V.G. S.p.A.	48.45%	-
Banca Sviluppo S.p.A.	31.93%	-
BCC Risparmio&Previdenza SGrpA	25.00%	2,125
Sinergia - Sistema di Servizi - Scarl	34.86%	-

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, 2019, 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 S.p.A. 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 2022. 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

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

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

Section 5 – Other information

Consolidated tax mechanism option

Iccrea Banca SpA and 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 consolidated financial statements have undergone a limited review 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 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*).

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.

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.

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.

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 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 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 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 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;
- 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;
- 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.

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.

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

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, as well as though amortization of the difference between the carrying amount and the amount repayable at maturity. In addition, the interest computed using the effective interest rate method in application of the amortized cost method is 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 due to the risk on the hedged item is recognized in profit or loss, offset with the change in the fair value of the hedging instrument, which is also recognized in 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 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).

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.

In determining the interest in the entity, consideration is only given to circumstances (percentage holding, effective and potential voting rights, de facto situations of significant influences, such as shareholders' agreements) that exist as of the reporting date. Joint arrangements are entities in which control is contractually shared with other parties.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 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 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 on equity investments 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 and equipment

Classification

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

Recognition

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

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

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

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

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

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

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 in accordance with IAS 16.

Derecognition

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

Recognition of income components

Depreciation is recognized through profit or loss. If there is evidence of possible impairment of the asset, the asset’s carrying amount is compared against its recoverable value, which is equal to the greater of the value in use of the asset, meaning the present value of future cash flows originated by the asset and its fair value, net of any disposal costs. Any negative difference between the carrying amount and the recoverable value is recognized in the income statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns. Any gain or loss due to a change in fair value of investment property is recognized in 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 is recognized in an amount equal to the positive difference between the purchase price of the business combination 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 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 that IFRS 5 requires be measured using the provisions of the relevant accounting standard (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 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 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).

Deferred tax assets and liabilities in respect of the same tax and reversing in the same period are offset.

Recognition and measurement

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

In cases where the deferred tax assets and liabilities regard transactions that directly impact equity with no effect on profit or loss (such as adjustments on first-time adoption of the IAS/IFRS, measurement of financial instruments 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 ex 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

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

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

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

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

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the 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 without 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 accrued from January 1, 2007 allocated to a supplementary pension scheme or to the treasury fund managed by INPS (Italy's National Social Security Institute) are treated as a defined-contribution plan since the company's obligation towards the employee ceases upon transfer of the portions accrued to the fund.

Therefore, starting January 1, 2007, the 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”; they are amortized over a period no greater than the term of the lease and the amortization charges are reported under other operating expenses.

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 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;[11]
- 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;[12] 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 were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;
- Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the 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.[13]

For the purpose of applying these multipliers, 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.

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

[11] This condition holds for positions that at reporting date have a conditional PD at 12 months of more than 20%.
[12] 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).
[13] 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.

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.

Other non-financial assets

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined as the greater of the fair value of the item of property 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. 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

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 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 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

Business combinations are recognized using the acquisition method. The cost of an acquisition is determined as the sum of the consideration transferred, measured at fair value at the acquisition date, and the amount of the minority interest in the acquiree. For each business combination, the Group defines whether to measure the minority interest in the acquiree at fair value or in proportion to the minority interest in the identifiable net assets of the acquiree. Acquisition costs are expensed during the year and classified under administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed in accordance with the contractual and financial terms and the other pertinent conditions existing at the acquisition date.

Any contingent consideration to be recognized is recognized by the purchaser at fair value at the acquisition date. Contingent consideration classified as equity is not subject to re-measurement and its subsequent payment is accounted for in shareholders' equity. The change in the fair value of the contingent consideration classified as an asset or liability, as a financial instrument within the scope of IFRS 9 Financial instruments, must be recognized in profit or loss in accordance with IFRS 9. Contingent consideration that does not fall within the scope of the IFRS 9 is measured at fair value at the reporting date and changes in fair value are recognized in profit or loss.

Goodwill is initially recognized at the cost represented by the excess of the consideration paid and the amount recorded for minority interests with respect to the identifiable net assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the amount paid, the Group verifies that it has correctly identified all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognized at the acquisition date. If the new valuation still shows a fair value for the net assets acquired that exceeds the consideration paid, the difference (profit) is recognized in profit or loss. After 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.

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 €4 billion euro of securities held under the hold to collect and sell (HTCS) business model to the hold to collect (HTC) business model. For more information on the issue, please see the report on operations.

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 has adopted a Group “Fair Value Policy” that assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

- mark to market: a valuation approach using inputs classified as Level 1 in the fair value hierarchy*;*
- the comparable approach: a valuation approach based on the use of the prices of instruments similar to the one undergoing valuation, which are classified as Level 2 in the fair value hierarchy;
- mark to model: a valuation approach based on the use of pricing models whose inputs are classified as Level 2 (in the case of the exclusive use of market observable inputs) or Level 3 (in the case of the use of at least one significant unobservable input) in the fair value hierarchy.

Mark to market

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value.

The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

Comparable approach

In the case of the comparable approach, measurement is based on the prices of substantively comparable instruments in terms of risk-return, maturity and other trading conditions. The following Level 2 inputs are necessary for use of the comparable approach:

- quoted prices on active markets for similar assets or liabilities;
- quoted prices for the instrument involved or for similar instruments on inactive markets, i.e. markets in which transactions are infrequent, prices are not current, change significantly over time or among the various market makers or on which little information is made public.

If there are quoted instruments that meet all of the comparability criteria indicated here, the value of the Level 2 instrument is considered to correspond to the quoted price of the comparable instrument, adjusted if necessary for factors observable on the market.

However, if the conditions for using the comparable approach directly do not apply, the approach may still be used as an input in Level 2 mark-to-model valuations.

Mark to model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.) and only in their absence or where they are insufficient to determine the fair value of an instrument may inputs that are not observable on the market be used (discretionary estimates and assumptions). The technique does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The Group uses mark-to-model approaches in line with methods that are generally accepted and used in the industry. The valuation models comprise techniques based on the discounting of future cash flows and the estimation of volatility. They are reviewed both during their development and periodically thereafter in order to ensure their full consistency with the valuation objectives.

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 Group has developed a method for calculating the CVA/DVA (Credit Value Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk).

For transactions in derivatives, the Group has also continued to develop its use of Credit Support Annexes (CSA) to mitigate risks.

Significant unobservable inputs used in valuing instruments in Level 3 mainly include:

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs. No quantitative analysis of the sensitivity of the fair value of those investments to changes in unobservable inputs has been performed. The fair value was taken from third-party sources with no adjustments;
- Probability of Default: the parameter is extrapolated either from multi-period transition matrices or from single-name or sector credit curves. The figure is used to value financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only;
- LGD: the figure is derived from a historical analysis of movements in the portfolio. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 Valuation processes and sensitivity

The sensitivity analysis of unobservable inputs is conducted through a stress test of all significant unobservable inputs for the different types of financial instrument. The tests are used to determine the potential changes in the fair value by category of instrument caused by realistic variations in the unobservable inputs (taking account of correlations between inputs).

The Group conducted an assessment of the potential sensitivity of the valuations of instruments classified in Level 3 and measured at fair value on a recurring basis to changes in the unobservable market parameters. The assessment found that the effects were not material.

A.4.3 Fair value hierarchy

Under the provisions of IFRS 13, all fair value valuations must be classified within the three levels that delineate the valuation process on the basis of the characteristics and significance of the inputs used:

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or 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.

In general, transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy only occur in the event of changes in the market in the period considered. For example, if a market previously considered active no longer meets the minimum requirements for being considered active, the instrument will be reclassified to a lower level; in the opposite case, it will be raised to a higher level.

As required under paragraph 97 of IFRS 13 and, previously, under IFRS 7, certain fair value disclosures are required for financial instruments measured at fair value for disclosure purposes only (instruments which are measured at amortized cost in the balance sheet).

The Group has specified the following approaches for measuring fair value in these cases:

- cash and cash equivalents: book value approximates fair value;
- loans with a contractually specified maturity (classified under L3): the discounted cash flow model with adjustments reflecting the cost of credit risk, the cost of funding, the cost of capital and any operating costs;
- bad debts and positions unlikely to 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 Group.

A.4.4 Other information

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

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	30/6/2019			31/12/2018		
	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	834,388	1,161,881	395,883	133,739	331,046	112,877
a) financial assets held for trading	92,971	330,693	1,846	78,863	246,695	1,946
b) financial assets designated as at fair value	492,372	5,430	6,608	-	-	-
c) other financial assets mandatorily measured at fair value	249,045	825,758	387,429	54,876	84,351	110,931
2. Financial assets measured at fair value through comprehensive income	9,590,391	117,466	142,463	364,122	49,976	40,721
3. Hedging derivatives	54	8,732	-	-	7,715	-
4. Property and equipment	11,523	505,598	12,934	12,592	458,666	3,527
5. Intangible assets	-	-	-	-	-	-
Total	**10,436,356**	**1,793,677**	**551,280**	**510,453**	**847,403**	**157,125**
1. Financial liabilities held for trading	3,943	333,291	-	3,515	241,940	-
2. Financial liabilities designated as at fair value	10,254	9,331	-	469	-	-
3. Hedging derivatives	110	388,508	-	-	69,033	-
Total	**14,307**	**731,130**	**-**	**3,984**	**310,973**	**-**

Key
L1=Level 1
L2= Level 2
L3= Level 3

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 30/6/2019	Total 31/12/2018
a) Cash	640,203	129,085
b) Demand deposits with central banks	166,452	2
Total	806,655	129,087

The item includes deposits with the Bank of Italy in the amount of €166.5 million, of which €15.5 million attributable to the Guarantee Scheme.

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 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**67,171**	**1,611**	**62**	**76,496**	**507**	**170**
1.1 structured securities	2,440	-	10	273	153	151
1.2 other debt securities	64,732	1,611	52	76,223	354	19
2. Equity securities	**8,780**	**178**	**58**	**1,901**	**21**	**219**
3. Units in collective investment undertakings	**16,942**	**8,417**	**-**	**454**	**-**	**-**
4. Loans	**-**	**1,086**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	1,086	-	-	-	-
Total (A)	92,893	11,292	121	78,851	528	389
B. Derivatives						
1. Financial derivatives	**78**	**319,401**	**1,725**	**14**	**246,167**	**1,557**
1.1 trading	78	319,388	1,725	14	246,167	1,557
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	13	-	-	-	-
2. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	78	319,401	1,725	14	246,167	1,557
Total (A+B)	92,971	330,693	1,846	78,865	246,695	1,946

The sub-item A.1 – 1.2 mainly includes government securities held for trading.

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 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**492,359**	**4,854**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	492,359	4,854	-	-	-	-
2. Loans	**12**	**577**	**6,608**	**-**	**-**	**-**
2.1 structured	-	-	1,379	-	-	-
2.2 other	12	577	5,229	-	-	-
Total	492,372	5,430	6,608	-	-	-

The item 1.2 "other debt securities" under Level 1 reports the balance for securities in which the liquidity from the Guarantee Scheme is invested.

2.5 OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**38,771**	**159,708**	**5,191**	**23,712**	**34,575**	**3,105**
1.1 structured securities	2,558	31,619	-	-	18,531	-
1.2 other debt securities	36,212	128,090	5,191	23,712	16,044	3,105
2. Equity securities	**2,953**	**198**	**21,608**	**1,983**	**8,816**	**15,633**
3. Units in collective investment undertakings	**207,321**	**209,663**	**16,054**	**29,181**	**40,960**	**12,208**
4. Loans	**-**	**456,188**	**344,576**	**-**	**-**	**79,985**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	456,188	344,576	-	-	79,985
Total	249,045	825,758	387,429	54,876	84,351	110,931

Key
L1=Level 1
L2= Level 2
L3= Level 3

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, 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 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**9,582,608**	**115,398**	**21**	**358,057**	**49,966**	**-**
1.1 structured securities	582,707	11,165	-	3,981	-	-
1.2 other debt securities	8,999,901	104,233	21	354,076	49,966	-
2. Equity securities	**7,783**	**2,068**	**142,442**	**6,065**	**10**	**40,721**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**9,590,391**	**117,466**	**142,463**	**364,122**	**49,976**	**40,721**

Key
L1=Level 1
L2= Level 2
L3= Level 3

The item "Debt securities" mainly includes government securities.

"Equity securities" under Level 3" regard the investment in the Bank of Italy in the amount of €27.5 million, with the remainder accounted for by minority shareholdings.

SECTION 4 – FINANCIAL ASSETS MEASURED AT AMORTIZED COST – ITEM 40

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF AMOUNTS DUE FROM BANKS

	Total 30/6/2019		Total 31/12/2018	
	Carrying amount		Carrying amount	
	Stage 1 and 2	Stage 3	Stage 1 and 2	Stage 3
A. Claims on central banks	**1,334,995**	**-**	**227,243**	**-**
1. Fixed-term deposits	-	-	-	-
2. Reserve requirements	1,334,989	-	227,243	-
3. Repurchase agreements	-	-	-	-
4. Other	5	-	-	-
B. Due from banks	**4,717,086**	**169**	**19,015,066**	**-**
1. Financing	3,808,330	169	18,724,056	-
1.1. Current accounts and demand deposits	733,216	-	706,962	-
1.2. Fixed-term deposits	109,081	-	164,645	-
1.3. Other financing:	2,966,032	169	17,852,445	-
- Repurchase agreements	241,267	-	5,062	-
- Finance leases	344	-	15,344	-
- Other	2,724,422	169	17,832,039	-
2. Debt securities	908,757	-	291,011	-
2.1 Structured securities	83,905	-	37,196	-
2.2 Other debt securities	824,852	-	253,815	-
Total	**6,052,081**	**169**	**19,242,306**	**-**

"Claims on central banks " include the balance of the Group banks' reserve requirement, of which €0.8 billion is 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 €2.1 billion, of which €1.7 billion granted within the framework of the TLTRO II. The significant reduction by comparison with the balance at December 31, 2018, which regarded the former Iccrea Banking Group, is explained by the elimination of intercompany operations between Iccrea Banca and the mutual banks 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 TO CUSTOMERS

	Total 30/6/2019			Total 31/12/2018	
	Stage 1 and 2	Stage 3	Stage 1 and 2	Stage 3	Stage 1 and 2
1. Loans	**76,998,609**	**6,426,320**		**11,514,065**	**1,131,225**
1.1. Current accounts	7,952,787	1,302,566		102,001	171,701
1.2. Repurchase agreements	2,051,737	-		1,199,151	-
1.3. Medium/long term loans	53,236,575	4,404,317		2,959,553	387,895
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,147,287	43,150		895,018	10,045
1.5. Finance leases	4,373,224	489,973		4,457,021	507,698
1.6. Factoring	365,123	13,921		500,137	11,773
1.7. Other loans	6,871,875	172,393		1,401,184	42,113
2. Debt securities	**41,136,854**	**261**		**6,945,050**	**36**
2.1 Structured securities	3,673,278	134		-	-
2.2 Other debt securities	37,463,576	127		6,945,050	36
Total	**118,135,463**	**6,426,581**		**18,459,115**	**1,131,261**

The sub-item "Repurchase agreements", in the amount of €2 billion, reports amounts connected with transactions with the Cassa di Compensazione e Garanzia S.p.A. (CC&G).

Medium/long-term loans, amounting to about €58 billion, are mainly granted to households and non-financial companies.

"Debt seurities" classified here, in the amount of about €41 billion, mainly include Italian government securities.

The significant increase in loans to customers compared with December 31, 2018, which reports the figure for the former Iccrea Banking Group, is explained by the entry of the mutual banks in the Group, whose operations are dominated by lending to households and small enterprises and by investments of liquidity in government securities.

4.4 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: GROSS AMOUNT AND TOTAL WRITEOFFS

		Gross amount			Total writeoffs		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Debts securities		41,727,219	404,918	2,983	(17,691)	(68,836)	(2,722)
Loans		70,490,582	12,615,448	12,786,687	(322,015)	(642,082)	(6,360,198)
Total	**30/6/2019**	**112,217,801**	**13,020,367**	**12,789,670**	**(339,706)**	**(710,918)**	**(6,362,920)**
Total	**31/12/2018**	**36,089,104**	**1,703,876**	**2,151,864**	**(42,738)**	**(48,824)**	**(1,020,600)**

SECTION 5 – HEDGING DERIVATIVES – ITEM 50

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

	FV 30/6/2019			NV	FV 31/12/2018			NV
	L1	L2	L3	30/6/2019	L1	L2	L3	31/12/2018
A. Financial derivatives								
1. Fair value	54	6,835	-	481,981	-	4,516	-	204,093
2. Cash flows	-	1,897	-	21,968	-	3,199	-	34,934
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**54**	**8,732**	**-**	**503,949**	**-**	**7,715**	**-**	**239,027**

Key
FV=Fair value
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 30/6/2019	Total 31/12/2018
1. Positive adjustments	**166,361**	**763**
1.1 of specific portfolios:	37,037	-
a) financial assets measured at amortized cost	31,437	-
b) financial assets measured at fair value through other comprehensive income	5,600	-
1.2 comprehensive	129,324	763
2. Negative adjustments	**(23)**	**(13)**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 comprehensive	(23)	(13)
Total	**166,338**	**750**

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.	49%	49%
2. BCC Assicurazioni S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	49%	49%
3. Hi-Mtf S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	25%	25%
4. M-Facility S.r.l.	Rome	Rome	Significant influence	Iccrea Banca S.p.A.	41%	41%
5. Car Server S.p.A.	Reggio Emilia	Reggio Emilia	Significant influence	Iccrea BancaImpresa S.p.A.	19%	19%
6. Satispay S.p.A.	Milan	Milan	Significant influence	Iccrea Banca S.p.A.	16%	16%
7. CSC - Centro Servizi Impresa S.r.l.	Castel Goffredo	Castel Goffredo	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	36%	36%
8. Polo Verde S.r.l.	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25%	25%
9. Foro Annonario Gest S.r.l.	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25%	25%
10. Solaria S.r.l.	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche e di Maremma S.C.	40%	40%

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.	99,081	101,430	-
2. BCC Assicurazioni S.p.A.	5,753	8,080	-
3. Car Server S.p.A.	14,637	19,010	-
4. Satispay S.p.A.	4,311	4,311	-

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” sets out the criteria and significant assumptions made in establishing whether or not there is an agreement for joint control or the exercise of significant influence.

SECTION 9 - PROPERTY AND EQUIPMENT – ITEM 90

OPERATING PROPERTY AND EQUIPMENT

	Total 30/6/2019	Total 31/12/2018
1. Owned assets	**1,868,651**	**210,621**
a) land	303,479	30,356
b) building	1,343,529	130,450
c) movables	60,922	2,941
d) electrical plants	62,172	23,990
e) other	98,549	22,884
2. Right-of-use assets acquired under leases	**263,334**	**5,086**
a) land	487	-
b) building	246,727	-
c) movables	894	-
d) electrical plants	9,588	5,086
e) other	5,638	-
Total	2,131,985	215,707

INVESTMENT PROPERTY

	Total 30/6/2019	Total 31/12/2018
1. Owned assets	**671,452**	**489,004**
a) land	29,906	1,058
b) building	641,546	487,946
2. Right-of-use assets acquired under leases	**7,324**	**-**
a) land	-	-
b) building	7,324	-
Total	678,776	489,004

The item includes properties transferred to the real estate investment funds that have been consolidated.

INVENTORIES OF PROPERTY AND EQUIPMENT WITHIN THE SCOPE OF IAS 2: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
1. Inventories of property and equipment obtained through enforcement of guarantees received	**-**	**-**
a) land	-	-
b) building	-	-
c) movables	-	-
d) electrical plants	-	-
e) other	-	-
2. Other inventories of property and equipment	**5,933**	**5,219**
Total	5,933	5,219

The item reports plant and equipment returned from terminated leases.

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/6/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**52,780**	**X**	**16,722**
A.1.1 pertaining to the Group	X	52,780	X	16,722
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**58,539**	**22,993**	**33,728**	**18,260**
A.2.1 Assets carried at cost	58,539	22,993	33,728	18,260
a) internally generated intangible assets	-	2,960	-	3,033
b) other assets	58,539	20,033	33,728	15,228
A.2.2 Assets designated as at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	58,539	75,773	33,728	34,983

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks and goodwill recognized upon first-time consolidation of certain controlling interests prior to the formation of the Cooperative Banking Group.

10.3 OTHER INFORMATION

Impairment testing results

IAS 36 requires that certain types of assets, 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 may be considered valid for the purposes of subsequent assessments provided that the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote. This judgment is essentially based on the analysis of facts and circumstances that may have changed after the most recent annual impairment test.

Specifically, IAS 36 requires that certain qualitative and quantitative analyses be performed when preparing interim financial statements to identify any impairment indicators (both internal and external) and consequently the conditions for testing for impairment more frequently than the ordinary annual test.

In consideration of the above, analyses were conducted to verify the presence - with respect to the date of approval of the impairment test for the separate financial statements and consolidated financial statements at December 31, 2018 - of indicators/events of either an external or internal nature (trigger events) such as to give rise to the need to perform impairment testing as part of the preparation of the interim financial statements at June 30, 2019.

In particular, the following external factors were analyzed:

- developments in macroeconomic conditions and medium-term forecasts for the banking sector compared with the assumptions underlying the projections considered in the impairment testing conducted at December 31, 2018;
- the components of the discount rate compared between the situation at the time of the impairment testing exercise and the current situation;

and the following internal factors:

- the preliminary figures at June 30, 2019 and the forecasts for expected profit in the 2019 budget in relation to the subsidiaries for which the goodwill has been recognized, compared with the preliminary figures.

Following the analysis, no indications of impairment of the assets being assessed were identified.

SECTION 11 - TAX ASSETS AND LIABILITIES – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 DEFERRED TAX ASSETS: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
1) Recognized in income statement:	**1,634,844**	**292,482**
a) DTA pursuant to Law 214/2011	**1,271,345**	**172,859**
Writedowns of loans to customers	1,228,611	172,597
Goodwill and other intangible assets at December 31, 2014	7,252	10
Tax losses/negative value of production pursuant to Law 214/2011	35,482	252
b) Other	**363,503**	**119,623**
Writedowns of amounts due from banks	1,045	547
Writedowns of loans to customers	74,208	675
Goodwill and other intangible assets	1,952	-
Tax losses	79,263	27,302
Writedowns of financial assets held for trading and financial assets measured at fair value	1,774	-
Writedowns of securities issued	219	-
Writedowns from impairment of guarantees issued recognized under liabilities	19,979	604
Provisions for risks and charges	75,261	18,627
Costs of predominantly administrative nature	2,809	143
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	21,446	849
Other	85,547	70,877
2) Recognized in shareholders' equity:	**60,734**	**19,778**
a) Valuation reserves	**33,960**	**7,027**
Capital losses on financial assets measured through OCI	33,960	7,027
b) Other:	**26,775**	**12,751**
Actuarial gains/losses on provisions for employees	4,517	117
Other	22,257	12,634
A. Total deferred tax assets	**1,695,578**	**312,260**
B. Offsetting with deferred tax liabilities	**-**	**(62)**
C. Net deferred tax assets	**1,695,578**	**312,198**

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
1) Recognized in income statement	**34,108**	**2,650**
Writedowns of loans to customers deducted in tax return	7	-
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	23,891	1,717
Other	10,211	933
2) Recognized in shareholders' equity	**40,013**	**658**
Valuation reserves	-	-
Capital gains on financial assets recognized through OCI	17,744	11
Revaluation of property	20,471	43
Other	1,798	604
A. Total deferred tax liabilities	**74,122**	**3,308**
B. Offsetting with deferred tax assets	**-**	**(62)**
C. Net deferred tax assets	**74,122**	**3,246**

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

	30/6/2019	31/12/2018
A. Assets held for sale		
A.1 Financial assets	-	36,129
A.2 Equity investments	-	-
A.3 Property and equipment	39,340	2,895
A.4 Intangible assets	-	2
A.5 Other non-current assets	32	-
Total A	**39,372**	**39,026**
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 and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
Total B	**-**	**-**
C. Liabilities associated with assets held for sale		
C.1 Debt	-	16,939
C.2 Securities	-	3,414
C.3 Other liabilities	-	16
Total C	**-**	**20,369**
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	**-**	**-**

SECTION 13 - OTHER ASSETS – ITEM 130

13.1 OTHER ASSETS: COMPOSITION

	30/6/2019	31/12/2018
- Shortfalls, embezzlement and robberies	1,419	-
- Trade receivables	55,045	1,375
- Stamp duty and other valuables	1,084	2
- Gold, silver and other precious metals	3,304	-
- Receivables for future premiums on derivatives	25,422	14,711
- Fees and commissions and interest to be received	18,616	25,268
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	350,932	77,416
- Receivables from social security institutions	4,388	292
- Tax receivables	32,255	12,905
- Receivables from employees	5,896	3,509
- Non-recurring transactions (acquisitions)	21,533	20,132
- Items in transit between branches and items being processed	542,438	67,362
- Financial assets in respect of loans granted for a specific deal	86,131	-
- Accrued income not attributable to separate line item	45,323	1,680
- Prepaid expenses not attributable to separate line item	63,792	24,582
- Leasehold improvements	49,173	530
- Other (security deposits, assets not attributable to other items)	595,312	156,551
- Consolidation adjustments	260,653	48,582
Total	**2,162,716**	**454,897**

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 30/6/2019	Total 31/12/2018
1. Due to central banks		**18,395,277**	**13,880,690**
2. Due to banks		**2,409,852**	**5,356,134**
2.1 Current accounts and demand deposits		675,022	1,945,265
2.2 Fixed term deposits		276,581	2,918,433
2.3 Loans		1,445,148	364,572
2.3.1 Repurchase agreements		1,292,005	172,561
2.3.2 Other		153,143	192,011
2.4 Liabilities in respect of commitments to repurchase own equity instruments		-	-
2.5 Lease liabilities		1,634	-
2.6 Other payables		11,467	127,864
	Total	20,805,129	19,236,824

“Due to central banks” mainly represents financing from the ECB (TLTRO II).

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – DUE TO CUSTOMERS: COMPOSITION BY TYPE

		Total 30/6/2019	Total 31/12/2018
1. Current accounts and demand deposits		77,769,206	1,478,501
2. Fixed-term deposits		6,737,075	269,856
3. Loans		12,621,063	11,860,852
3.1 Repurchase agreements		11,535,937	11,791,402
3.2 Other		1,085,126	69,450
4. Liabilities in respect of commitments to repurchase own equity instruments		-	-
5. Lease liabilities		264,214	-
6. Other payables		1,433,460	1,172,078
	Total	98,825,018	14,781,287

The significant increase in the item “Current accounts and demand deposits” compared with December 31, 2018, is explained by the entry of the mutual banks in the Group, whose operations are dominated by funding with households and small enterprises.

The sub-item “Repurchase agreements” is mainly composed of transactions with the Clearing and Guarantee Fund in the amount of €11.3 billion.

The sub-item “Loans-other” comprises €0.5 billion in loans obtained in OPTES auctions with the Ministry for the Economy and Finance.

1.3 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - SECURITIES ISSUED: COMPOSITION BY TYPE

	Total 30/6/2019	Total 31/12/2018
A. Securities		
1. Bonds	11,872,620	5,025,360
1.1 structured	8,410	38,282
1.2 other	11,864,210	4,987,078
2. Other securities	5,527,204	74,750
2.1 structured	-	-
2.2 other	5,527,204	74,750
Total	**17,399,824**	**5,100,110**

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2019				Fair value	Total 31/12/2018				Fair value
	NV	Fair value				NV	Fair value			
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	1,317	1,358	-	-	1,358	511	540	-	-	540
2. Due to customers	1,457	2,097	-	-	2,097	1,398	1,407	-	-	1,407
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	**2,774**	**3,455**	**-**	**-**	**3,455**	**1,909**	**1,947**	**-**	**-**	**1,947**
B. Derivatives										
1. Financial derivatives	X	488	333,291	-	X	X	1,569	241,940	-	X
1.1 Trading	X	488	332,266	-	X	X	1,569	241,881	-	X
1.2 Associated with fair value option	X	-	1,021	-	X	X	-	-	-	X
1.3 Other	X	-	4	-	X	X	-	59	-	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**	**488**	**333,291**	**-**	**X**	**X**	**1,569**	**241,940**	**-**	**X**
Total (A+B)	**X**	**3,943**	**333,291**	**-**	**X**	**X**	**3,516**	**241,940**	**-**	**X**

Key:
NV=nominal or notional value
L1= level 1
L2= Level 2
L3= Level 3

SECTION 3 - FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE - ITEM 30

3.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2019					Total 31/12/2018				
	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	**18,876**	**10,254**	**9,331**	**-**	**19,558**	**446**	**469**	**-**	**-**	**442**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	18,876	10,254	9,331	-	X	446	469	-	-	X
Total	**18,876**	**10,254**	**9,331**	**-**	**19,558**	**446**	**469**	**-**	**-**	**442**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	NV 30/6/2019	Fair value 30/6/2019			NV 31/12/2018	Fair value 31/12/2018		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**7,201,405**	**110**	**388,508**	**-**	**3,331,186**	**-**	**69,033**	**-**
1) Fair value	7,157,469	110	387,431	-	3,287,518	-	67,749	-
2) Cash flows	43,937	-	1,077	-	43,668	-	1,284	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**7,201,405**	**110**	**388,508**	**-**	**3,331,186**	**-**	**69,033**	**-**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3

SECTION 6 – FINANCIAL LIABILITIES – ITEM 60

See section 11 under assets.

SECTION 7 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70

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

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
Amounts due to social security institutions and State	84,116	20,437
Trade payables	126,624	12,255
Securities to be settled	26,516	-
Amounts available to customers	584,358	24,492
Non-recurring transactions (acquisitions)	1,708	3,503
Liabilities for future premiums on derivatives	5,415	6,051
Tax payables due to tax authorities	256,646	30,087
Payables due to employees	155,583	17,308
Financial liabilities in respect of loans granted for a specific deal	102,850	12,221
Guarantees issued and credit derivatives	1,472	-
Accrued expenses not attributable to separate line item	46,518	652
Deferred income not attributable to separate line item	23,599	8,227
Items in transit and items being processed	416,304	56,179
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	631,914	365,903
Consolidation adjustments	-	1,332
Balance of illiquid portfolio items	48,965	57,222
Dividends	62	-
Total	**2,512,650**	**615,869**

The item " Amounts available to customers" refers to pension payments awaiting payment to customers by mutual banks acting as intermediaries.

The item "Items being processed" 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 to tax authorities" includes amounts to be paid to the tax authorities, such as amounts in respect of tax returns paid by customers and withholding tax withheld by mutual banks on customer transactions.

"Other" is mainly attributable to failed purchase transactions and trade items.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

		Total 30/6/2019	Total 31/12/2018
A. Opening balance		**24,696**	**25,880**
B. Increases		**313,061**	**4,030**
B.1 Provisions for the period		6,882	383
B.2 Other increases		306,179	3,649
C. Decreases		**14,073**	**5,214**
C.1 Benefit payments		10,587	1,998
C.2 Other decreases		3,486	3,216
D. Closing balance		**323,684**	**24,696**
	Total	323,684	24,696

The sub-item “Other increases” mainly include the effects of the entry of the mutual banks in the Group and, to a lesser extent, of the actuarial recalculation of the accrued obligation.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 30/6/2019	Total 31/12/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued		181,524	21,401
2. Provisions for other commitments and guarantees issued		2,830	91
3. Company pension plans		36	-
4. Other provisions for risks and charges		254,043	67,479
4.1 legal disputes		102,868	37,128
4.2 personnel expense		49,373	4,252
4.3 other		101,802	26,099
	Total	438,433	88,971

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 revocatory actions, litigation and disputes, and legal costs for debt collection.

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 S.p.A., 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, 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, an increase of €250 million over 2018 following the capital increase completed in early April.

As at the reporting date, share capital of the mutual banks belonging to the Iccrea Cooperative Banking Group amounted to €914,712,253. 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	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(16,057,902)	-
A.2 Shares in circulation: opening balance	**6,227,585**	-
B. Increases	4,840,272	-
B.1 new issues	4,840,272	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	4,840,272	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	(4,796,468)	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	(4,796,468)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**6,271,389**	-
D.1 Treasury shares (+)	20,854,370	-
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 €2,315,757,705 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 €8.5 billion.

More specifically, earnings reserves amount to €8.4 billion and include, among the largest, the legal reserve in the amount of €9.8 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 is entirely represented by seven Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. There were no changes during 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.

SECTION 14 – NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 “NON-CONTROLLING INTERESTS”

	30/6/2019	31/12/2018
Equity investments in consolidated companies with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	38,343	37,578
2. Banca Sviluppo SpA	14,773	38,745
3. BCC Risparmio&Previdenza SGrpA	7,324	8,552
4. Sinergia - Sistema di Servizi - Scarl	53	-
5. Coopersystem Societa' Cooperativa	11,403	-
6. BCC CreditoConsumo S.p.A.	2,818	2,908
Other equity investments	3,317	5,096
Total	**78,031**	**92,879**

NON-CONTROLLING INTERESTS: COMPOSITION

	30/6/2019	31/12/2018
1. Share capital	82,283	107,183
2. Share premium reserve	4,405	4,672
3. Reserves	(10,658)	(21,554)
4. Treasury shares	-	-
5. Valuation reserves	(755)	743
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	2,760	1,835
Total	**78,031**	**92,879**

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 30/6/2019	Total 30/6/2018
1. Financial assets measured at fair value through profit or loss	**4,658**	**2,306**	**356**	**7,320**	**710**
1.1 Financial assets held for trading	1,008	40	356	1,404	161
1.2 Financial assets designated as at fair value	1,180	627	-	1,807	-
1.3 Other financial assets mandatorily at fair value	2,470	1,639	-	4,109	549
2. Financial assets measured at fair value through other comprehensive income	**37,628**	**-**	**X**	**37,628**	**4,138**
3. Financial assets measured at amortized cost	**186,191**	**1,235,499**	**X**	**1,421,690**	**209,876**
3.1 Due from banks	6,795	3,466	X	10,261	6,146
3.2 Loans to customers	179,396	1,232,033	X	1,411,429	203,730
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**1,048**	**1,048**	**4**
6. Financial liabilities	**X**	**X**	**X**	**58,133**	**55,303**
Total	228,477	1,237,805	1,404	1,525,819	270,031

Interest on loans to customers include interest income of €1.2 billion, mainly on loans to households and non-financial companies.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/6/2019	Total 30/6/2018
1. Financial liabilities measured at amortized cost	(129,944)	(132,817)	X	(262,761)	(58,919)
1.1 Due to central banks	(670)	X	X	(670)	-
1.2 Due to banks	(4,556)	X	X	(4,556)	(8,323)
1.3 Due to customers	(124,718)	X	X	(124,718)	(4,929)
1.4 Securities issued	X	(132,817)	X	(132,817)	(45,667)
2. Financial liabilities held for trading	-	-	(87)	(87)	-
3. Financial liabilities designated as at fair value	(132)	(544)	-	(676)	(14)
4. Other liabilities and provisions	X	X	(564)	(564)	(7)
5. Hedging derivatives	X	X	(23,583)	(23,583)	(13,710)
6. Financial assets	X	X	X	(19,975)	(40,987)
Total	(130,076)	(133,362)	(24,234)	(307,646)	(113,637)

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	30/6/2019	30/6/2018
a) guarantees issued	13,574	940
c) management, intermediation and advisory services	156,402	84,197
1. Trading in financial instruments	1,043	2,583
2. foreign exchange	3,033	140
3. asset management	28,129	31,811
3.1 individual	3,874	831
3.2 collective	24,255	30,980
4. securities custody and administration	4,725	3,051
6. securities placement	15,750	1,888
7. order collection and transmission	9,298	712
8. advisory services	1,339	814
8.1 concerning investments	524	225
8.2 concerning financial structure	815	589
9. distribution of third-party services	93,085	43,198
9.1. asset management	4,655	-
9.1.1. individual	4,597	-
9.1.2. collective	58	-
9.2. insurance products	40,782	2,127
9.3. other	47,648	41,071
d) collection and payment services	122,306	21,418
e) servicing activities for securitizations	1,884	206
f) management of multilateral trading systems	2,044	1,898
g) holding and management of current accounts	246,508	3,179
h) other services	158,538	184,891
Total	701,256	296,729

The composition of fee and commission income reflects the operations of the Group's mutual banks, which are typically composed of customer current accounts, collection and payment services, distribution of third-party products and services such as insurance products. "Other services" includes €158 million in fees related to the electronic money sector.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
a) guarantees received	(1,326)	(563)
b) credit derivatives	-	-
c) management and intermediation services:	(6,584)	(22,336)
1. trading in financial instruments	(1,104)	(465)
2. foreign exchange	(161)	(35)
3. asset management:	(2,511)	(18,725)
3.1 own portfolio	(2,359)	(18,725)
3.2 third-party portfolio	(152)	-
4. securities custody and administration	(2,662)	(1,683)
5. placement of financial instruments	(146)	(1,428)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(21,799)	(969)
e) other services	(65,524)	(160,487)
Total	(95,233)	(184,355)

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/6/2019		Total 30/6/2018	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	141	9	-	3
B. Other financial assets mandatorily measured at fair value	626	329	-	-
C. Financial assets measured at fair value through other comprehensive income	2,209	7	-	10
D. Equity investments	261	-	1,258	-
Total	**3,237**	**345**	**1,258**	**13**

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	**1,161**	**14,136**	**(635)**	**(4,327)**	**10,335**
1.1 Debt securities	319	7,902	(98)	(2,633)	5,490
1.2 Equity securities (other equity investments)	85	1,407	(297)	(229)	967
1.3 Units in collective investment undertakings	757	1,075	(240)	(71)	1,521
1.4 Loans	-	-	-	-	-
1.5 Other	-	3,752	-	(1,394)	2,358
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**	**(114,049)**
4. Derivatives	**11,245**	**32,276**	**(11,845)**	**(33,816)**	**114,477**
4.1 Financial derivatives:	11,245	32,276	(11,845)	(33,815)	114,477
- on debt securities and interest rates	10,469	32,190	(11,654)	(32,981)	(1,976)
- on equity securities and equity indices	775	86	(191)	(834)	(164)
- on foreign currencies and gold	X	X	X	X	116,617
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	(1)	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**12,405**	**46,412**	**(12,479)**	**(38,142)**	**10,763**

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
A. Gain on:		
A.1 Fair value hedges	5,410	3,258
A.2 Hedged financial assets (fair value)	233,043	41,334
A.3 Hedged financial liabilities (fair value)	4,333	366
A.4 Cash flow hedges	585	2,115
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**243,371**	**47,073**
B. Loss on:		
B.1 Fair value hedges	(240,923)	(35,055)
B.2 Hedged financial assets (fair value)	(1,133)	(9,477)
B.3 Hedged financial liabilities (fair value)	(1,963)	(2,923)
B.4 Cash flow hedges	-	-
B.5 Assets and liabilities in foreign currencies	(411)	(2,118)
Total expense on hedging activities (B)	**(244,430)**	**(49,573)**
C. Net gain (loss) on hedging activities (A - B)	**(1,059)**	**(2,500)**

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

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/6/2019			Total 30/6/2018		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	74,668	(13,140)	61,529	17,314	(1)	17,312
1.1 Due from banks	896	(39)	856	49	(1)	48
1.2 Loans to customers	73,772	(13,100)	60,672	17,265	-	17,265
2. Financial assets measured at fair value through other comprehensive income	45,234	(15,966)	29,268	14,269	(77,673)	(63,404)
2.1 Debt securities	45,234	(15,966)	29,268	14,269	(77,673)	(63,404)
2.2 Loans	-	-	-	-	-	-
Total assets	**119,902**	**(29,106)**	**90,797**	**31,583**	**(77,674)**	**(46,092)**
Financial assets						
1. Financial assets measured at amortized cost	-	-	-	-	-	-
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	1,873	(884)	989	322	(2,419)	(2,097)
Total liabilities	**1,873**	**(884)**	**989**	**322**	**(2,419)**	**(2,097)**

The gain (loss) on disposal amounts to about €92 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	**4,411**	**-**	**(286)**	**-**	**4,125**
1.1 Debt securities	4,195	-	(134)	-	4,061
1.2 Loans	216	-	(152)	-	64
2. Financial liabilities	**4,755**	**110**	**(4,563)**	**-**	**302**
2.1 Securities issued	4,755	110	(4,563)	-	302
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**9,166**	**110**	**(4,849)**	**-**	**4,427**

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	**25,680**	**14,346**	**(13,205)**	**(463)**	**26,357**
1.1 Debt securities	2,969	1,658	(1,051)	(176)	3,400
1.2 Equity securities	5,498	7,529	(977)	(22)	12,028
1.3 Units in collective investment undertakings	8,983	5,159	(3,131)	(184)	10,827
1.4 Loans	8,230	-	(8,047)	(81)	102
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**25,680**	**14,346**	**(13,206)**	**(463)**	**26,357**

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 30/6/2019	Total 30/6/2018
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Due from banks	**(3,308)**	**-**	**(4)**	**13,644**	**123**	**10,456**	**468**
- loans	(2,635)	-	(4)	11,871	123	9,356	458
- debt securities	(673)	-	-	1,773	-	1,100	10
of which: receivables purchased or originated credit-impaired	**(306,815)**	**(30,913)**	**(789,334)**	**332,438**	**520,512**	**(274,112)**	**(52,937)**
B. Loans to customers	(293,660)	(30,913)	(789,228)	323,050	520,512	(270,239)	(48,545)
- loans	(13,155)	-	(106)	9,388	-	(3,873)	(4,392)
Total	**(310,123)**	**(30,913)**	**(789,338)**	**346,083**	**520,635**	**(263,657)**	**(52,469)**

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 30/6/2019	Total 30/6/2018
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3		
A. Debt securities	(1,342)	-	(7)	3,666	56	2,373	(161)
B. Loans	(23)	-	-	-	-	(23)	-
- to customers	(23)	-	-	-	-	(23)	-
- to banks	-	-	-	-	-	-	-
Total	**(1,365)**	**-**	**(7)**	**3,666**	**56**	**2,350**	**(161)**

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
1) Employees	(797,087)	(94,304)
a) wages and salaries	(551,557)	(65,327)
b) social security contributions	(137,865)	(16,752)
c) termination benefits	(18,609)	(813)
d) pension expenditure	(1,002)	-
e) allocation to employee termination benefit provision	(7,075)	(548)
g) payments to external pension funds:	(35,286)	(4,841)
- a defined contribution	(35,252)	(4,841)
- defined benefit	(34)	-
i) other employee benefits	(45,693)	(5,923)
2) Other personnel	(6,136)	(1,214)
3) Board of directors and members of Board of Auditors	(23,551)	(2,248)
4) Retired personnel	(36)	-
Total	**(826,810)**	**(97,666)**

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
Information technology	(103,545)	(59,223)
Property and movables	(42,247)	(5,025)
- rental and fees	(8,634)	(2,151)
- ordinary maintenance	(28,348)	(2,605)
- security	(5,265)	(269)
Goods and services	(83,226)	(15,516)
- telephone and data transmission	(24,458)	(7,113)
- postal	(15,030)	(2,687)
- asset transport and counting	(7,894)	(441)
- electricity, heating and water	(17,300)	(1,483)
- transportation and travel	(9,646)	(3,143)
- office supplies and printed materials	(7,433)	(564)
- subscriptions, magazines and newspapers	(1,465)	(85)
Professional services	(122,752)	(24,900)
- professional fees (other than audit fees)	(32,894)	(13,212)
- audit fees	(4,425)	(460)
- legal and notary costs	(35,507)	(2,973)
- court costs, information and title searches	(19,940)	(903)
- insurance	(11,318)	(652)
- administrative services	(18,668)	(6,700)
Promotional, advertising and entertainment expenses	(32,082)	(4,570)
Association dues	(52,766)	(3,838)
Donations	(2,368)	(7)
Other	(78,780)	(9,013)
Indirect taxes and duties	(177,522)	(46,640)
- stamp duty	(99,806)	(9,367)
- long-term loan tax - Pres. Decree 601/73	(14,196)	(89)
- municipal property tax	(7,734)	(1,050)
- financial transaction tax	(246)	(10)
- other indirect taxes and duties	(55,540)	(36,124)
Total	**(695,288)**	**(168,744)**

SECTION 14 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT - ITEM 210

14.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property and equipment				
A.1 Operating assets	(82,915)	(1)	-	(82,916)
- Owned	(59,780)	(1)	-	(59,781)
- Right-of-use assets in respect of leases	(23,135)	-	-	(23,135)
A.2 Investment property	(825)	(763)	-	(1,588)
- Owned	(825)	(763)	-	(1,588)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(297)	-	(297)
Total	**(83,740)**	**(1,061)**	**-**	**(84,801)**

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	(8,415)	(27)	-	(8,442)
- generated internally by the Bank	(307)	-	-	(307)
- other	(8,108)	(27)	-	(8,135)
A.2 Acquired under finance leases	-	-	-	-
Total	**(8,415)**	**(27)**	**-**	**(8,442)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(16,204)	(14,238)
Reductions in assets not attributable to separate line item	(1,499)	-
Prior-year expenses not attributable to separate line item	(4,788)	(515)
Costs of outsourced services	(79)	(6)
Settlement of disputes and claims	(912)	-
Amortization of expenditure for leasehold improvements	(3,115)	(89)
Other charges – extraordinary transactions	(49)	(17)
Robbery and theft	(211)	-
Other expenses	(14,261)	(6,909)
Consolidation adjustments	(7,167)	(4,943)
Total	**(48,285)**	**(26,717)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
A) Recoveries	**150,783**	**16,084**
Recovery of taxes	98,432	7,549
Recovery for services to Group companies	19	(4)
Recovery of sundry charges	27,246	8,539
Insurance premiums	899	-
Property rental income	72	-
Recovery of costs from customers	6,856	-
Recovery of costs on bad debts	17,259	-
B) Other income	**55,914**	**54,754**
Insourcing revenues	68	-
Property rental income	1,781	172
Reductions in liabilities not attributable to separate line item	666	49
Prior-year income not attributable to separate line item	9,657	226
Other income from finance leases	7,795	10,502
Other income - extraordinary transactions	712	-
Other income	20,318	43,805
Consolidation adjustments	14,917	-
Total	**206,697**	**70,838**

The recovery of taxes and duties 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 30/6/2019	Total 30/6/2018
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	3,926	4,360
1. Revaluations	3,926	4,360
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	(978)	(686)
1. Writedowns	(978)	(686)
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	**2,948**	**3,674**
Total	**2,948**	**3,674**

The item reports the financial impact of the equity measurement of investments in associates.

SECTION 18 - NET ADJUSTMENT TO FAIR VALUE OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 260

18.1 NET ADJUSTMENT TO FAIR VALUE (OR REVALUED AMOUNT) OR ESTIMATED REALIZABLE VALUE OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS: COMPOSITION

	Revaluations (a)	Writedowns (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property and equipment	**-**	**(13,888)**	**-**	**-**	**(13,888)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	(13,888)	-	-	(13,888)
A.2 Investment property:	-	(13,888)	-	-	(13,888)
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	**-**	**(13,888)**	**-**	**-**	**(13,888)**

The item reports gains/losses on the measurement of the properties held by the consolidated real estate investment funds.

SECTION 20 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 280

20.1 GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
A. Property	3,087	(3)
- Gains on disposal	3,677	1
- Losses on disposal	(591)	(4)
B. Other assets	94	300
- Gains on disposal	332	300
- Losses on disposal	(238)	-
Net result	**3,180**	**297**

SECTION 21 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 300

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
1. Current taxes (-)	(23,574)	(1,903)
2. Change in current taxes from previous period (+/-)	1,960	(399)
3. Reduction of current taxes for the period (+)	4,735	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	3,038	-
4. Change in deferred tax assets (+/-)	(38,101)	681
5. Change in deferred tax liabilities (+/-)	1,402	630
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(50,540)**	**(991)**

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"

	30/6/2019	30/6/2018
Consolidated equity investments with significant non-controlling interests		
1. Banca Mediocredito del F.V.G. S.p.A.	(1,740)	-
2. Banca Sviluppo S.p.A.	35	-
3. BCC Risparmio & Previdenza SGrpA	869	1,499
4. Sinergia - Sistema di Servizi - Scarl	(338)	-
5. Coopersystem Società Cooperativa	3,522	-
6. BCC CreditoConsumo S.p.A.	383	-
Other equity investments	29	1,520
Total	**2,760**	**3,019**

PART D
Consolidated comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		30/6/2019	30/6/2018
10.	**Net profit (loss) for the period**	**181,379**	**(70,103)**
	Other comprehensive income not recyclable to profit or loss	**(17,242)**	**(6,227)**
20.	Equity securities designated as at fair value through other comprehensive income:	2,723	(6,639)
	a) fair value changes	2,605	(6,639)
	b) transfers to other elements of shareholders' equity	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 and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(22,582)	414
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	2,617	(2)
	Other comprehensive income recyclable to profit or loss	**226,983**	**(13,249)**
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:	625	342
	a) fair value changes	(1,048)	2,457
	b) reversal to income statement	1,673	(2,115)
	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:	333,008	(14,241)
	a) fair value changes	152,178	(6,165)
	b) reversal to income statement	25,392	(8,076)
	- adjustments for credit risk	6,141	(422)
	- gain/loss on realization	19,251	(7,654)
	c) other changes	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:	2,447	(1,655)
	a) fair value changes	2,447	(1,655)
	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	(109,072)	2,303
190.	**Total other comprehensive income**	**209,741**	**(19,478)**
200.	**Comprehensive income (item 10+190)**	**391,120**	**(89,581)**
210.	Consolidated comprehensive income pertaining to non-controlling interests	3,452	3,082
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**387,668**	**(92,663)**

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, in addition to CRO staff and support units (e.g. Validation), the following structures:

- “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;
- “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;
- act 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 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.
- monitors 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:
  - 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, 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;
- 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 and adopted by the Group reflects the specific features of the ICBG, 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 Group 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, as discussed in the report on operations.

SECTION 1 - RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total
1. Financial assets measured at amortized cost	2,475,328	3,527,678	425,006	3,363,927	120,822,354	130,614,294
2. Financial assets measured at fair value through other comprehensive income	7	150	2	-	9,697,865	9,698,024
3. Financial assets designated as at fair value	377	1,218	45	36	502,734	504,410
4. Other financial assets mandatorily measured at fair value	20	-	1,477	6,612	996,325	1,004,434
5. Financial assets held for sale	-	-	-	-	-	-
Total 30/6/2019	**2,475,731**	**3,529,047**	**426,530**	**3,370,575**	**132,019,279**	**141,821,162**
Total 31/12/2018	**439,351**	**665,964**	**29,291**	**165,432**	**38,118,182**	**39,418,220**

A.1.2 DISTRIBUTION OF CREDIT EXPOSURES BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired assets				Unimpaired assets			
	Gross exposure	Total adjustments	Net exposure	Total partial writeoffs*	Gross exposure	Total adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortized cost	12,790,954	6,362,942	6,428,012	302,046	125,236,961	1,050,681	124,186,280	130,614,294
2. Financial assets measured at fair value through other comprehensive income	323	165	158	-	9,703,316	5,450	9,697,866	9,698,024
3. Financial assets designated as at fair value	1,911	270	1,641	-	X	X	502,769	504,410
4. Other financial assets mandatorily measured at fair value	1,522	25	1,497	-	X	X	1,002,938	1,004,434
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30/6/2019	**12,794,710**	**6,363,402**	**6,431,308**	**302,046**	**134,940,277**	**1,056,131**	**135,389,853**	**141,821,162**
Total 31/12/2018	**2,156,737**	**1,022,131**	**1,134,606**	**27,203**	**38,235,923**	**93,327**	**38,283,614**	**39,418,220**

*Values to be reported for information purposes

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	2,018	565	390,570
2. Hedging derivatives	-	-	8,786
Total 30/6/2019	**2,018**	**565**	**399,356**
Total 31/12/2018	**1,221**	**309**	**332,317**

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, 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 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 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:

- 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 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 NPEs.

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 (or buckets):

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the evaluation date, do not show a significant increase in credit risk with respect to the date of initial recognition;
- stage 2, which includes all performing exposures that, as at the evaluation date, show a significant increase in credit risk with respect to the date of initial recognition;
- 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 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 significant thresholds defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position. In residual cases where there is no origination PD/rating and only the reporting date PD/rating is available, the method provides for the use of the practical expedient of the low credit risk exemption;
- 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 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 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 that incorporate current and future macroeconomic conditions;
- 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 calculated by grouping exposures at a variable level of granularity (by technical form, counterparty type), considering, for each uniform cluster of exposures, the ratio of provisions associated with specific writedowns to the total gross non-performing exposure and applying a danger rate matrix (to quantify the probability of transition of non-performing positions from one status to another) in order to determine an LGD that is representative of all possible default states and their evolution. For the securities portfolio, the same LGD (45%) is used for exposures in stage 1 and stage 2.

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.

The Group conditions risk parameters for future macroeconomic scenarios using models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of specific target variables (default rates, amount of non-performing positions, etc.).

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

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 NPEs 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 NPEs 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 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.

These exposures are subject to management, measurement and control in accordance with the principles discussed in the previous section of the consolidated notes to the financial statements.

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

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

CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED 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	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	-	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) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	6,611	10	6,601	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**6,611**	**10**	**6,602**	**-**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	1,463	37	1,427	-
TOTAL B	**-**	**1,463**	**37**	**1,427**	**-**
TOTAL A+B	**-**	**8,074**	**46**	**8,029**	**-**

* 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	Unimpaired assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad debts	6,850,322	X	4,374,606	2,475,716	293,054
- of which: forborne exposures	1,048,401	X	591,801	456,600	37,687
b) Unlikely to be repaid	5,458,298	X	1,929,618	3,528,680	8,972
- of which: forborne exposures	2,927,729	X	960,510	1,967,219	8,288
c) Impaired past due exposures	485,472	X	59,158	426,314	20
- of which: forborne exposures	98,039	X	11,781	86,258	-
d) Unimpaired past due exposures	X	3,527,793	157,255	3,370,538	-
- of which: forborne exposures	X	297,822	29,589	268,233	-
e) Other unimpaired assets	X	126,376,067	888,206	125,487,861	284
- of which: forborne exposures	X	1,551,533	111,319	1,440,214	-
TOTAL A	**12,794,092**	**129,903,860**	**7,408,843**	**135,289,109**	**302,330**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	469,339	X	70,242	399,097	-
b) Unimpaired	X	22,764,060	73,255	22,690,805	2,474
TOTAL B	**469,339**	**22,764,060**	**143,497**	**23,089,902**	**2,474**
TOTAL A+B	**13,263,431**	**152,667,921**	**7,552,341**	**158,379,011**	**304,804**

*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.

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).

ICBG 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 Iccrea Cooperative Banking Group 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)

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;

- *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 as 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 contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the operating units, top management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

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

This table has not been completed since an analysis of interest rate 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

The trading book of the Iccrea Cooperative Banking Group has a market value of less than 1% of the total portfolio and is almost entirely held by the trading desks of the Parent Company, while trading operations of the affiliated banks are marginal. The associated 1-day VaR - at a confidence level of 99% - was equal to about €2.01 million at June 30, 2019 and was mainly attributable to the interest rate risk at about €2 million, while the other risk factors (FX, CR and INFL) were negligible.

A sensitivity analysis is shown below of the main risk factors to which the trading book of the Iccrea Cooperative Banking Group is exposed:

Risk factor	Sensitivity value (€/millions)	Note
Interest Rates	0.347	Sensitivity calculated for a change of 1 basis point
Inflation Rates	(0.061)	
Credit spread	0.090	
Equity	0.326	Sensitivity calculated for a change of 1% in the stock/stock 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: 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 as 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.

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 is reported below. The analysis of the exposure to the risk is monitored on a monthly basis by the Group Finance Committee.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	-24	+183
Impact on net interest income	-351	+430

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: hedges originally established by the affiliated banks primarily regard portfolios of loans to customers. On the other hand, transactions involving the hedging of loans to customers or securities of a minor nature (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 and 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 financial instruments (government securities, loans).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings, bonds issued and deposits, while macro hedging is applied to portfolios of fixed-rate loans, variable-rate loans and portfolios of government 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) 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 (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 cross currency swaps (CCS) not listed on regulated markets, transacted with third party counterparties on OTC markets.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the first half of 2019, 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 mainly government securities, bond issues of the Parent Company 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 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

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 IRS and CCS, 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

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.

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 under 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.

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. 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, both at short and 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

Monitoring liquidity risk involves constant communication between the Risk Management function and the operating units. Within the Group, the Risk Management function is responsible for measuring and monitoring the current and prospective exposure to liquidity risk (profile), at both the consolidated and individual levels. It verifies the position of indicators with respect to the specified limits (EWS, RAS and risk limits), and measures contingency indicators and additional metrics, i.e. measurement tools and techniques supplementing the liquidity risk monitoring tools for which no risk limits have been established, but rather alert thresholds and evaluation activities performed by the competent units.

Second-level controls 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 should the specified limits be exceeded. Control activities is based on the assessment and measurement of the risk profile with respect to the risk indicators established by the Risk Governance framework and are 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.

Within this area, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

Stress test framework

The Group’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.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset at the Group level.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of 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 the first half of 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 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 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 annual activity programs and reports of the Operational & IT Risk Management unit submitted to the Board of Directors;

- expresses its assessment, prior to approval by the Board of Directors, of Group policies on operational and IT risks.

OPERATIONAL RISK MANAGEMENT POLICIES

Consistent with the risk management process, the Operational Risk Management framework is structured into the following phases:

- identification of risks (knowledge): a set of activities directed at identifying operational risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational 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 risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): 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 risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (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),[14] 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 framework already adopted by the companies of the former Iccrea Banking Group were revised and will be gradually adopted by the affiliated banks as well.

In the first half of 2019, activities leading up to the go-live of the application system to support operational and IT risk management activities were begun and, with specific reference to the Loss Data Collection process, the parameterization phase of the system was undertaken with a view to its application with the direct subsidiaries of the Parent Company and the affiliated mutual banks.

In addition, the first half of 2019 also saw a significant informational and training effort for the Operational Risk Management framework, 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 risk within the Group’s internal control systems. These include the Operational Risks, Compliance and Anti-Money-

14 One affiliated bank adopts the Traditional Standardised Approach (TSA).

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 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 compliance (an indicator specified for the entire scope of application of the RAF);

RISK MANAGEMENT AND MITIGATION

Operational risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

MONITORING AND REPORTING

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

The Risk Management function prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board of Directors, senior management, operating units).

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the 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 "gross income".

In particular, the Group capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the previous year, amounted to €94,127 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2018	T	634,286
- at December 31, 2017	T-1	625,565
- at December 31, 2016	T-2	622,690
Relevant indicator average		**627,514**
Regulatory coefficient		**15%**
Capital requirement		**94,127**

PART F
Information on consolidated capital

SECTION 1 - CONSOLIDATED CAPITAL

QUALITATIVE DISCLOSURES

One of the Group's strategic priorities is to monitor the size of and developments in capital. Capital constitutes the first bulwark against the risks associated with operations and the main benchmark for assessments conducted by the supervisory authorities and the market on the solvency of the Group. It contributes positively to the formation of profit, makes it possible to finance the Group's technical and financial fixed assets, accompanies growth and represents a key element of development.

The adequacy of capital at the consolidated and individual level is ensured by capital management activities, within which the size and optimal combination of capital instruments are determined, in compliance with regulatory restrictions and consistent with the risk profile assumed by the Group.

The definition of capital that the Group uses in its assessments is the notion of "own funds" as established by Regulation (EU) no. 575/2013 (CRR), broken down into the three components of Common Equity Tier 1 capital (CET 1), Tier 1 capital (Tier 1) and Tier 2 capital (Tier 2). Capital thus defined, the main foundation for assuming business risks in accordance with prudential supervisory provisions, is the best benchmark for effective strategic and current management, serving as a financial resource capable of absorbing the potential losses that could be generated by the exposure to all the risks assumed.

Ensuring current and future capital adequacy is therefore pursued along two lines:

- regulatory capital for Pillar I risks;
- total internal capital for Pillar II risks for the purposes of ICAAP.

Developments in the magnitude of the Group's own funds are affected by the particular policies for allocating the net profits of the affiliated banks, which support the constant strengthening of reserves. These banks, in compliance with specific sector regulations, allocate a substantial majority of net profits to undistributable reserves. Compliance with capital adequacy requirements is pursued not only through careful policies for the distribution of the available component of profits but also through careful management of investments, in particular loans, on the basis of the riskiness of the counterparties and the related capital requirements, and through plans for strengthening capital based on the expansion of the shareholder base, as well as the issue by the Parent Company of subordinated liabilities or additional capital instruments eligible for inclusion in the relevant own funds aggregates.

More specifically, in order to maintain adequate capital on an ongoing basis, the Group has adopted processes and tools to determine the appropriate level of internal capital to face every type of risk assumed, within the framework of an assessment of our current and prospective exposure, in normal and stress conditions, that takes account of corporate strategies, growth objectives and developments in the external environment.

On an annual basis, as part of the process of defining budget objectives, a careful assessment of the compatibility of the projections is performed. Depending on the expected dynamics of the balance sheet and income statement aggregates, any necessary initiatives to ensure financial equilibrium and the availability of financial resources consistent with the strategic and development objectives of the individual entity and the Group as a whole are identified and implemented.

Verification of compliance with supervisory requirements and the consequent adequacy of capital is carried out at least quarterly. The aspects subject to scrutiny are mainly the "ratios" determined with respect to the Group's financial structure (loans, impaired exposures, non-current assets and liabilities, total assets) and the degree of risk coverage.

Additional specific analyses to assess capital adequacy are performed as necessary prior to extraordinary operations, such as mergers and acquisitions or asset sales.

The minimum capital requirements adopted are the mandatory parameters established by current supervisory rules (Article 92 of the CRR), under which CET 1 must be equal to 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 amount to at least 8% of the total risk-weighted assets ("Total capital ratio").

In addition, the competent supervisory authorities periodically issue specific decisions regarding capital requirements with which the Group must comply following the supervisory review and evaluation process (“SREP”) conducted pursuant to Article 97 et seq. of Directive 36/2013/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 implemented by supervised groups and banks to cover the complex risks to which they are exposed. With the SREP, the competent authorities review and assess the process of determining capital adequacy conducted internally by the Group, analyze the risk profiles, both individually and from an aggregate perspective, including under stress conditions, evaluate the contribution to systemic risk; assess the corporate governance system, the operation of the corporate bodies, the organizational structure and the internal control system and verify compliance with prudential rules.

As discussed earlier in the report on operations, the supervisory authorities have not yet notified the Parent Company of the additional requirement determined to take account of the new configuration of the ICBG (the SREP requirements). In this context, the current additional individual requirements - where present - remain valid at the date prior to the formation of the Group (i.e. P2R) calculated for the individual members of the Group, in support of the implementation of the risk governance processes defined on a consolidated basis (ICBG RAS, ICBG ICAAP, etc.). An internally estimated additional requirement of 1.40% was considered, determined as the weighted average with respect to the RWAs of the additional requirements attributed to the individual ICBG companies.

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	2,398,029	-	(2,394)	2,405	**2,398,040**
2. Share premium reserve	150,418	-	-	-	**150,418**
3. Reserves	8,353,608	-	2,394	(172)	**8,355,830**
4. Equity instruments	30,139	-			**30,139**
5. (Treasury shares)	(1,091,340)	-	-	-	**(1,091,340)**
6. Valuation reserves:	170,697	-	-	-	**170,697**
- Equity securities designated as at fair value through other comprehensive income	(10,278)	-	-	-	**(10,278)**
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-			**-**
- Financial assets measured at fair value through other comprehensive income	(23,615)	-	-	-	**(23,615)**
- Property and equipment	112	-	-	-	**112**
- Intangible assets	-	-	-	-	**-**
- Hedging of investments in foreign operations	-	-	-	-	**-**
- Cash flow hedges	(160)	-	-	-	**(160)**
- 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	(59,656)	-	-	-	**(59,656)**
- Share of valuation reserves of equity investments accounted for using equity method	8,647	-	-	-	**8,647**
- Special revaluation laws	255,646	-	-	-	**255,646**
7. Net profit (loss) for the period (+/-)	181,379	-	-	-	**181,379**
Shareholders' equity	**10,192,931**	**-**	**-**	**2,233**	**10,195,164**

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	**(2,627)**	**(7,042)**	**-**
2. Increases	**248,095**	**7,431**	**-**
2.1 Fair value gains	106,297	6,517	-
2.2 Writedowns for credit risk	5,010	X	-
2.3 Reversal to income statement of negative reserves: from realization	24,632	X	-
2.4 Transfers from other components of shareholders' equity (equity securities)	9	661	-
2.5 Other changes	(133,284)	(4,560)	(3)
3. Decreases	**(23,637)**	**(5,854)**	**(11)**
3.1 Fair value losses	(3,969)	(4,928)	-
3.2 Writebacks for credit risk	(2,201)	(18)	-
3.3 Reversal to income statement of positive reserves: from realization	(12,509)	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	(462)	(11)
3.5 Other changes	(4,958)	(446)	-
4. Closing balance	**(23,600)**	**(10,279)**	**(14)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

For more information on the capital adequacy assessment process and the composition of Group own funds, please see the section on Third Pillar disclosures.

PART G
Business combinations

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

For corporate reorganization purposes, two 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 Serino into BCC di Capaccio Paestum, leading to the creation of BCC Capaccio Paestum e Serino;
- the merger of BCC di Gradara into RiminiBanca, leading to the creation of RivieraBanca – Credito Cooperativo di Rimini e Gradara.

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

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

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

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

PART H
Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the first half of 2019 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 30/6/2019				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	6,147	173	2	-	-

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 summarized transactions and their financial effects carried out in the first half of 2019 with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 30/6/2019			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	12,114	116,606	2,716	4,441
Financial liabilities	16,937	14,686	3,318	21,412
Commitments and financial guarantees issued	3,049	26,715	60	6,324
Commitments and financial guarantees received	5,865	-	3,957	16,627
Provisions for doubtful accounts	-	1,470	-	-

	Total 30/6/2019			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	1,327	1,260	26	17,509
Interest expense	189	28	5	2,639
Dividends	265	-	-	-
Fee and commission income	4,307	7,666	182	8,066
Fee and commission expense	1,328	142	314	832
Writedowns/writebacks of impaired financial assets	452	671	-	5,996

PART I
Share-based payments

As at the reporting date, the Group had no payment agreements based on its own equity instruments in place.

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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 member 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 the various segments.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	88,064	13,944	32,961	1,067,986	15,219	1,218,173
Net fee and commission income	8,691	107,400	24,591	510,574	(45,233)	606,023
Other financial expense and income	(1,859)	99,637	7	97,863	(59,792)	135,856
Gross income	**94,896**	**220,980**	**57,559**	**1,676,423**	**(89,807)**	**1,960,051**
Net value adjustments	(37,394)	(619)	(1,892)	(222,051)		(261,956)
Net gains (losses) on financial operations	**57,503**	**220,362**	**55,667**	**1,454,371**	**(89,807)**	**1,698,096**
Operating expenses	(50,423)	(169,042)	(36,336)	(1,208,617)	5,984	(1,458,434)
Other costs and revenues	(1,159)	(8,649)	270	(1,221)	3,016	(7,743)
Profit/(loss) from continuing operations before tax	**5,921**	**42,671**	**19,601**	**244,533**	**(80,807)**	**231,918**
Income tax for the period on continuing operations	(3,164)	808	(6,261)	(41,923)		(50,540)
Profit/(loss) for the period	**2,757**	**43,479**	**13,340**	**202,610**	**(80,807)**	**181,379**
Profit/(loss) for the period pertaining to non-controlling interests	**(1,711)**	**3,184**	**1,287**			**2,760**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**4,468**	**40,295**	**12,053**	**202,610**	**(80,807)**	**178,619**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	420,804	12,671,845	180,783	48,275,320	(7,351,684)	54,197,068
Due from banks	237,381	22,143,154	756,933	7,504,971	(25,498,941)	5,143,498
Loans to customers	8,698,887	4,787,111	1,501,786	70,523,097	(1,985,836)	83,525,045
Funding from banks	3,522,905	20,146,359	1,250,768	22,803,605	(26,918,508)	20,805,129
Funding from customers	1,225,705	12,982,394	1,037,862	83,919,325	(340,268)	98,825,018
Securities and other financial liabilities	4,028,533	6,441,308	125,501	13,772,848	(6,222,926)	18,145,264

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

REPORT OF THE AUDIT FIRM

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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Building a better working world

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 as of June 30, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flows for the period then ended and the related explanatory notes of Iccrea Cooperative Banking Group. 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 Iccrea Cooperative Banking Group as of June 30, 2019 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis Paragraph

Without modifying our conclusion, we draw attention to the matters described by the directors in the explanatory notes “PART A – Accounting policies – Section 2: General preparation principles” in relation to the establishment of the Iccrea Cooperative Banking Group, which took effect for accounting purposes on January 1, 2019. The comparative figures for the previous year indicated in the interim consolidated financial statements and in the tables included in the explanatory notes represent the balances of the pre-existing Iccrea Banking Group’s.

Rome, October 14, 2019

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers

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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, on 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. Given the above, in order to allow for the comparability of the results of the Parent Company with the previous year, in the following reclassified statements the information relating to this business has been included in the relevant items of the separate financial statements.

THE BALANCE SHEET

Assets

€/thousands	30/6/2019	31/12/2018	Delta
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	26,338,297	25,654,753	683,544
Financial assets measured at amortized cost – *Due from customers – Loans*	4,735,365	3,832,731	902,635
Financial assets measured at amortized cost – *Due from customers – Securities*	6,919,275	6,874,611	44,664
Financial assets measured at fair value through profit or loss	1,634,800	896,619	738,181
Financial assets measured at fair value through other comprehensive income	362,937	282,946	79,991
Equity investments	1,264,120	1,266,772	(2,652)
Other assets	334,374	244,301	90,073
Total interest-bearing assets	**41,589,168**	**39,052,732**	**2,536,436**
Other non-interest-bearing assets	240,407	256,778	(16,371)
Total assets	**41,829,575**	**39,309,510**	**2,520,065**

Total assets at June 30, 2019, amounted to €41.8 billion, up on the €39.3 billion posted at the end of December 2018, 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 €492 million) and an increase in derivatives trading (up €291 million);
- growth in financial assets measured at fair value through other comprehensive income (FVOCI), attributable to the purchase of debt securities (€76.1 million, €53.7 million of which related to government securities);
- an increase in amounts due from banks, attributable to the liability for reserve requirement funds of the mutual banks (up €570.6 million), collateralized loans (up €150.3 million), and uses in current accounts (up €276.1 million), effects which were partially offset by a decrease in debt securities (down €402.8 million);
- growth in amounts due from customers, attributable to repo transactions with the Compensazione e Garanzia S.p.A. (CC&G). (€799.7 million).

(€/thousands)	30/6/2019	31/12/2018	Delta
Mutual banks	18,024,881	18,104,299	(79,418)
Other credit institutions	8,313,416	7,550,454	762,961
Due from banks	**26,338,297**	**25,654,753**	**683,543**

Lending to mutual banks remained essentially stable at about €18 billion. These loans, disbursed with pool collateral, include approximately €9.7 billion in operations with the ECB (TLTRO II), with the rest being other forms of collateralized financing. Amounts due from other credit institutions (which include debt securities) are largely attributable to intercompany receivables. Loans granted to Iccrea BancaImpresa, amounting to €6.5 billion, include about €1.1 billion refinanced by the Parent Company with the central bank through the use of the "ABACO" procedure, with the use of collateral in the amount of €2.4 billion.

(€/thousands)	30/6/2019	31/12/2018	Delta
Current accounts	259,881	319,673	(59,792)
Medium/long-term loans	76,513	82,856	(6,343)
Repurchase agreements	1,998,871	1,199,151	799,721
Other transactions	2,389,680	2,216,073	173,607
Impaired assets	10,420	14,978	(4,558)
Due from customers	**4,735,365**	**3,832,731**	**902,635**

Loans to ordinary customers include €2 billion related to intercompany loans and the same amount related to repurchase agreements with the Compensazione e Garanzia S.p.A. (CC&G). The €0.9 billion increase compared with 2018 derives mainly from the greater number of repo transactions with the CC&G.

The investment portfolio referring to HTC securities with customers is mainly made up of government securities and shows a balance at June 2019 of €6.9 billion.

The portfolio of financial assets measured at fair value through profit or loss (€1.6 billion) increased by €738 million from December 31, 2018 (€897 million) due, above all, to the new role played by the Parent Company as the manager of the Guarantee Scheme (€492 million) and to the increase in derivatives trading (up €291 million).

Financial assets measured at fair value through other comprehensive income, referring to the HTCS business model, are mainly made up of government securities and show a balance of €363 million at June 30, 2019.

Equity investments totaled €1.3 billion, which is in line with December 31, 2018. The interest held in Securfondo was adjusted to its NAV as at June 30, 2019, with the €2.3 million decrease in value being recognized through profit or loss.

Liabilities and equity

€/thousands	30/6/2019	31/12/2018	Delta
Financial liabilities measured at amortized cost – *Due to banks*	20,131,804	19,424,621	707,183
Financial liabilities measured at amortized cost – *Due to customers*	12,972,056	12,615,042	357,014
Financial liabilities measured at amortized cost – *Securities issued*	5,300,750	5,027,706	273,044
Financial liabilities held for trading	557,606	251,128	306,478
Financial liabilities designated as at fair value	423,550	-	423,550
Other liabilities	412,612	335,127	77,484
Total interest-bearing liabilities	**39,798,377**	**37,653,624**	**2,144,754**
Other non-interest-bearing liabilities	187,113	85,134	101,978
Shareholders' equity	1,827,956	1,606,384	221,571
Profit/(loss) for the period (+/-)	16,130	(35,632)	51,762
Total liabilities and shareholders' equity	**41,829,575**	**39,309,510**	**2,520,065**

Interest-bearing funding totaled €39.8 billion, an increase of €2.1 billion from the previous year due to the following factors:

- growth in amounts due to banks as a result of the increase in deposits and current accounts (up €1,757.9 million), which was partially offset by a decrease in repos (down €121.5 million) and in ECB funding (down €1,015.7 million);
- an increase in amounts due to customers, attributable to deposits and current-account financing (up €360 million), which was offset by a decrease in repurchase transactions with the Clearing & Guarantee Fund in relation to operations on behalf of the Italian Treasury (OPTES) with the Ministry for the Economy and Finance as the counterparty;
- an increase in securities issued as a result of new issues (up €341.3 million), which was partially offset by securities reaching maturity (down €91.8 million);
- an increase in liabilities held for trading, attributable mainly to trading derivatives (up €305.0 million);
- the establishment of financial liabilities designated as at fair value related to financing received from the member banks (the *ex ante* quota) in relation to the Guarantee Scheme (up €423.6 million).

(€/thousands)	30/6/2019	31/12/2018	Delta
Mutual banks	6,197,277	4,371,951	1,825,326
Other credit institutions	13,934,527	15,052,669	(1,118,142)
Due to banks	**20,131,804**	**19,424,621**	**707,183**

Interbank deposits, which include €757 million in deposits for the fulfillment of mandatory reserve requirements for the mutual banks, amounted to €20.1 billion. Amounts due to mutual banks refer to the liquidity held in the daily settlement account in the amount of about €2.8 billion, with the remainder in time deposits.

Amounts due to other credit institutions are largely attributable to loans obtained from the ECB under the TLTRO II (€12.8 billion), while the remainder refers to intercompany transactions.

(€/thousands)	30/6/2019	31/12/2018	Delta
Current accounts and demand deposits	729,281	369,280	360,001
Loans	11,784,594	11,791,402	(6,808)
Other payables	458,181	454,359	3,822
Due to customers	**12,972,056**	**12,615,041**	**357,015**

Funding from customers is essentially in line with 2018.

The value of securities issued at June 30, 2019, was €5.3 billion, an increase of about €273 million on the end of 2018, a change which reflects the net impact of maturing securities in the amount of about €92 million and new issues of about €341 million.

Equity

At June 30, 2019, Iccrea Banca's share capital, made up of 27,125,759 ordinary shares with a nominal value of €51.65 each, totaled €1.4 billion, an increase of €250 million from 2018 following efforts to strengthen capital as approved by the shareholders on January 10 and completed in early April. Shareholders' equity, excluding earnings for the period, amounted to €1.8 billion, an increase of €222 million compared with December 31, 2018. The main changes may be attributed to the positive effects of the aforementioned increase in capital (up €250 million) and the increase in valuation reserves (up €7 million) as a result of the increase in value of the FVOCI portfolio, which was partially offset by the loss carried forward from 2018 in the amount of €35.6 million.

The income statement

€/thousands	30/6/2019	30/6/2018	Delta
Net interest income	**29,410**	**26,070**	**3,340**
Gains/losses on financial transactions	32,792	(52,376)	85,168
Dividends	51,226	41,615	9,610
Net fee and commission income	**75,320**	**75,650**	**(330)**
Other operating expenses/income	33,349	14,286	19,063
Gross income	222,246	105,246	**117,000**
Personnel expenses	(65,081)	(42,259)	(22,822)
Other administrative expenses	(135,396)	(119,254)	(16,142)
Net adjustments of property and equipment and intangible assets	(5,251)	(3,363)	(1,888)
Total operating expenses	(205,728)	(164,876)	**(40,852)**
Gross operating profit	16,518	(59,630)	**76,148**
Net provisions for risks and charges	(427)	682	(1,109)
Net losses/recoveries on impairment of loans and other financial transactions	(631)	(6,001)	5,370
Total provisions and adjustments	(1,207)	(5,319)	**4,112**
Profit/(loss) from equity investments	(2,322)	-	(2,322)
Profit (loss) before tax	12,989	(64,949)	**77,938**
Income tax expense	3,141	5,450	(2,309)
Profit/(Loss) for the period	**16,130**	**(59,499)**	**75,628**

Net profit for the period came to €16.1 million, an increase over the performance of June 2018 (net loss of €59.5 million), which was significantly impacted by events of an extraordinary nature, including:

- the contributions to the National Resolution Fund (BRRD) totaling €28.6 million;

- the full disinvestment of the investment book (held under the HTCS business model) following a stop-loss strategy adopted as a result of the increase in the spread on government securities showing a capital loss of €76 million;
- administrative costs incurred for the establishment of the ICBG in the amount of about €7.2 million.

Gross income at June 30, 2019, including other operating income (€33.5 million), totaled €222.2 million, an increase of €117.0 million compared with June 30, 2018 (€105.2 million), when performance was heavily influenced by the stop-loss strategy described above.

Net interest income, which saw an increase in return on the securities portfolio (€7.3 million) and on intercompany lending (€3 million) that was partially offset by a decrease in return on the loan portfolio (€1.2 million) and an increase in the cost of medium to long-term funding (€5.7 million), made a positive contribution to overall financial performance. Net fee and commission income remained essentially stable, while dividends increased by €9.6 million due to the increase in profitability of Iccrea BancaImpresa, BCC Gestione Crediti and BCC CreditoConsumo (up €18.9 million), which was partially offset by a decrease in dividends received from BCC Risparmio & Previdenza (down €7 million) and from BCC Solutions (down €2.0 million).

Net income from financing activities posted gains of €11.5 million attributable, above all, to the securities of Nexi (€7.4 million) and Visa Inc. (€3.6 million), while gains on disposals related to the sale of government securities (€20 million) allocated to the HTC portfolio contributed to the recovery in gross income from the previous period, which was influenced by the extraordinary events described above.

Total costs increased by €41 million compared with 2018 to reach €206 million due, in large part, to the increase in personnel expenses (from €42.3 to 65.1 million) as a result of an increase in the workforce (from an average of 900 to more than 1,300 FTE) following the reorganization to create the ICBG. The change in other administrative expenses was mainly due to the increase in IT costs (€20 million) incurred for the creation of the ICBG and for the installation of new workstations (€2 million), costs which were offset by the lower BRRD contribution (€6 million) resulting from the change in the parameters used to calculate it. The increase of €1.9 million in depreciation and amortization was mainly due to increases in the capitalization of software for ICBG-related projects.

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.

The creation of a specific e-money company, which requires authorization by the Bank of Italy, will facilitate the assessment of a potential opening of the capital of the new company to third-party operators, functional to raising funds and expertise for the incremental growth and development of the business.

The decision to establish a dedicated legal entity to manage the e-money business is 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	30/6/2019
Financial assets measured at amortized cost:	535
Equity investments	5,027
Property and equipment	4
Intangible assets	2,148
Other assets	141,051
Total assets	**148,765**

€/thousands	30/6/2019
Financial liabilities measured at amortized cost	98,231
b) Due to customers	98,231
Other liabilities	41,141
Post-employment benefits	672
Provisions for risks and charges	1,414
Profit/(Loss) for the period (+/-)	7,307
Total liabilities and shareholders' equity	**148,765**

Equity investments include the investments in Ventis (95%), in the amount of €4.9 million, and in Bancomat S.p.A. (9.71%), in the amount of €107 thousand.

Financial liabilities measured at amortized cost include the total monies funds on prepaid cards.

Income statement

€/thousands	30/6/2019
Fee and commission income	174,338
Fee and commission expense	(132,848)
Net fee and commission income	**41,490**
Gross income	**41,490**
Net income/(loss) from financial operations	**41,490**
Administrative expenses:	(38,678)
a) personnel expenses	(3,313)
b) other administrative expenses	(35,365)
Net provisions for risks and charges	(130)
b) other net provisions	(130)
Net writedowns/writebacks of property and equipment	(1)
Net writedowns/writebacks of intangible assets	(276)
Other operating expenses/income	7,903
Operating expenses	**(31,182)**
Profit/(loss) before tax on continuing operations	**10,308**
Income tax expense	**(3,001)**
Profit/(Loss) for the period	**7,307**

REFERRAL TO OTHER PARTS OF THE FINANCIAL STATEMENTS

This separate report on operations only comprises comments on developments in the operations of the Parent Company. For all other disclosures required by law or regulations, please see the individual topics addressed in the notes to the separate or consolidated interim financial statements and the associated report on operations.

More specifically, see the notes to these separate interim financial statements for more on:

- disclosures concerning the Group's transactions with related parties, which are reported in Part H;
- disclosures on financial and operational risks, which are discussed in Part E;
- disclosures on capita., which are reported in Part F.

Please seen the consolidated report on operations for more information on:

- the main risks and uncertainties;
- subsequent events to the reporting date and the outlook for operations;
- the main characteristics of the risk management and internal control systems for financial reporting (Article 123-bis, paragraph 2, letter b) of the Consolidated Financial Intermediation Act.

SEPARATE FINANCIAL STATEMENTS

June 30, 2019

BALANCE SHEET

	Assets	30/6/2019	31/12/2018
10.	Cash and cash equivalents	103,731,993	40,806,690
20.	Financial assets measured at fair value through profit or loss	1,634,799,804	896,619,018
	a) financial assets held for trading	594,522,922	341,018,250
	b) financial assets designated as at fair value	492,359,263	-
	c) other financial assets mandatorily measured at fair value	547,917,619	555,600,768
30.	Financial assets measured at fair value through other comprehensive income	362,830,088	282,945,680
40.	Financial assets measured at amortized cost	37,992,402,114	36,361,572,762
	a) due from banks	26,338,296,632	25,654,753,257
	b) loans to customers	11,654,105,482	10,706,819,505
50.	Hedging derivatives	6,335,852	7,715,045
60.	Value adjustments of financial assets hedged generically (+/-)	1,497,967	750,259
70.	Equity investments	1,259,199,835	1,261,745,242
80.	Property and equipment	14,520,821	14,220,647
90.	Intangible assets	26,233,463	27,042,614
100.	Tax assets	85,935,286	86,433,307
	a) current	45,425,282	42,962,607
	b) deferred	40,510,004	43,470,700
110.	Non-current assets and disposal groups held for sale	148,765,051	146,793,101
120.	Other assets	193,323,122	182,865,580
	Total assets	**41,829,575,395**	**39,309,509,945**

	Liabilities and shareholders' equity	30/6/2019	31/12/2018
10.	Financial liabilities measured at amortized cost	38,306,378,400	36,969,235,491
	a) due to banks	20,131,803,810	19,424,620,547
	b) due to customers	12,873,825,036	12,516,909,028
	c) securities issued	5,300,749,554	5,027,705,916
20.	Financial liabilities held for trading	557,606,201	251,128,374
30.	Financial liabilities designated as at fair value	423,550,272	-
40.	Hedging derivatives	159,155,954	63,304,502
60.	Tax liabilities	778,197	-
	b) deferred	778,197	-
70.	Liabilities associated with assets held for sale	138,455,825	127,597,666
80.	Other liabilities	374,472,328	308,159,073
90.	Employee termination benefits	15,670,738	10,176,436
100.	Provisions for risks and charges:	9,422,014	9,156,377
	a) commitments and guarantees granted	21,207	107,696
	c) other provisions for risks and charges	9,400,807	9,048,681
110.	Valuation reserves	45,559,943	38,356,458
140.	Reserves	379,876,458	415,508,556
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,151,045,404
170.	Treasury shares (-)	(4,607,698)	(4,607,698)
180.	Net profit (loss) for the period (+/-)	16,129,905	(35,632,099)
	Total liabilities and shareholders' equity	**41,829,575,395**	**39,309,509,945**

INCOME STATEMENT

		30/6/2019	30/6/2018
10.	Interest and similar income	142,151,538	135,665,849
	of which: interest income calculated using effective interest rate method	73,694,195	
20.	Interest and similar expense	(112,741,474)	(109,595,419)
30.	**Net interest income**	**29,410,064**	**26,070,430**
40.	Fee and commission income	41,058,942	205,253,419
50.	Fee and commission expense	(7,228,454)	(129,603,331)
60.	**Net fee and commission income (expense)**	**33,830,487**	**75,650,088**
70.	Dividends and similar income	51,225,656	41,615,270
80.	Net gain (loss) on trading activities	5,012,525	5,824,145
90.	Net gain (loss) on hedging activities	(1,672,515)	(2,815,254)
100.	Net gain (loss) on the disposal or repurchase of:	20,274,347	(48,676,774)
	a) financial assets designated as at amortized cost	20,781,262	16,895,457
	b) financial assets measured at fair value through other comprehensive income	(985,876)	(63,404,107)
	c) financial liabilities	478,961	(2,168,124)
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	9,178,103	(6,707,742)
	a) financial assets and liabilities designated as at fair value	143,856	-
	b) other financial assets mandatorily measured at fair value	9,034,247	(6,707,742)
120.	**Gross income**	**147,258,668**	**90,960,163**
130.	Net losses/recoveries for credit risk in respect of:	(630,720)	(6,001,015)
	a) financial assets measured at amortized cost	(578,442)	(5,840,304)
	b) financial assets measured at fair value through other comprehensive income	(52,278)	(160,711)
150.	**Net income (loss) from financial operations**	**146,627,948**	**84,959,148**
160.	Administrative expenses:	(161,800,006)	(161,513,120)
	a) personnel expenses	(61,768,647)	(42,258,808)
	b) other administrative expenses	(100,031,359)	(119,254,312)
170.	Net provisions for risks and charges	(297,624)	682,040
	a) commitments and guarantees granted	86,489	14,798
	b) net provisions for other risk and charges	(384,113)	667,242
180.	Net adjustments of property and equipment	(2,677,521)	(2,144,109)
190.	Net adjustments of intangible assets	(2,296,727)	(1,218,854)
200.	Other operating expenses/income	25,446,231	14,286,316
210.	**Operating expenses**	**(141,625,647)**	**(149,907,727)**
220.	Profit (loss) from equity investments	(2,322,220)	-
260.	**Profit (loss) before tax on continuing operations**	**2,680,081**	**(64,948,579)**
270.	Income tax expense from continuing operations	6,142,246	5,450,019
280.	**Profit (loss) on continuing operations after tax**	**8,822,326**	**(59,498,560)**
290	Profit (loss) on discontinued operations after tax	7,307,579	-
300.	**Profit (loss) for the period**	**16,129,905**	**(59,498,560)**

STATEMENT OF COMPREHENSIVE INCOME

		30/6/2019	30/6/2018
10.	**Net profit (loss) for the period**	**16,129,905**	**(59,498,560)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**1,946,334**	**(6,469,415)**
20.	Equity securities designated as at fair value through other comprehensive income	2,539,374	(6,617,483)
70.	Defined benefit plans	(593,041)	148,069
	Other comprehensive income net of taxes recyclable to profit or loss	**5,257,151**	**(11,614,902)**
130.	Cash flow hedges	395,290	229,166
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	4,861,861	(11,844,068)
190.	**Total other comprehensive income net of taxes**	**7,203,485**	**(18,084,317)**
200.	**Comprehensive income (items 10+170)**	**23,333,390**	**(77,582,876)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2019

				Allocation of net profit of previous year		Change for 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 new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 30/6/2019	Shareholders' equity at 30/6/2019
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 reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	413,506,192	-	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 CHANGES IN SHAREHOLDERS' EQUITY 2018

				Allocation of net profit of previous year		Change for the period								
							Equity transactions							
	As at 31/12/2017	Change in opening balance	As at 1/1/2018	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	Comprehensive income at 30/6/2019	Shareholders' equity at 30/6/2018
Share capital:														
a) ordinary shares	1,151,045,404	-	1,151,045,404	-			-	-						1,151,045,404
b) other shares	-	-	-	-			-	-						-
Share premium reserve	4,746,737	-	4,746,737	-			-							4,746,737
Reserves:														
a) earnings	399,191,559	9,921,784	409,113,343	4,475,118		-	-	-	-					413,588,461
b) other	2,002,364	-	2,002,364	-		-	-		-		-	-		2,002,364
Valuation reserves	66,833,949	(13,543,993)	53,289,956			-							(18,084,316)	35,205,640
Equity instruments	-	-	-											-
Treasury shares	(30,846,922)	-	(30,846,922)				6,122,424							(24,724,498)
Net profit (loss) for the period	4,751,176	-	4,751,176	(4,475,118)	(276,059)								(59,498,560)	(59,498,560)
Total shareholders' equity	**1,597,724,267**	**(3,622,209)**	**1,594,102,058**		**(276,059)**	**-**	**6,122,424**	**-**	**-**	**-**	**-**	**-**	**(77,582,876)**	**1,522,365,547**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/6/2019	30/6/2018
A. OPERATING ACTIVITIES		
1. Operations	**(64,082,018)**	**(168,617,556)**
- net profit (loss) for the period (+/-)	16,129,905	(59,498,560)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	14,398,221	(9,662,367)
- gains (losses) on hedging activities (-/+)	1,672,515	2,815,254
- net losses/recoveries on impairment (+/-)	630,720	6,012,734
- net adjustments of property and equipment and intangible assets (+/-)	4,974,248	3,362,833
- net provisions for risks and charges and other costs/revenues (+/-)	2,750,782	3,595,329
- taxes, duties and tax credits to be settled (+/-)	(6,144,700)	(5,475,259)
- other adjustments (+/-)	(98,493,709)	(109,767,519)
2. Net cash flows from/used in financial assets	**(2,439,793,555)**	**(6,792,402,853)**
- financial assets held for trading	(267,369,392)	16,639,345
- financial assets designated as at fair value	(492,215,407)	(270,985,971)
- financial assets mandatorily measured at fair value	7,982,253	5,176,931
- financial assets measured at fair through other comprehensive income	20,318,170	2,488,911,173
- financial assets measured at amortized cost	(1,626,882,402)	(9,079,507,381)
- other assets	(81,626,777)	47,363,050
3. Net cash flows from/used in financial liabilities	**2,268,280,321**	**6,952,946,950**
- financial liabilities measured at amortized cost	1,334,918,369	6,931,817,309
- financial liabilities held for trading	306,424,437	159,552,048
- financial liabilities designated as at fair value	423,550,272	-
- other liabilities	203,387,243	(138,422,408)
Net cash flows from/used in operating activities (A)	**(235,595,252)**	**(8,073,459)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**50,222,876**	**40,343,946**
- dividends on equity investments	50,222,876	40,343,946
2. Cash flows used in	**(1,702,368)**	**(63,082,998)**
- purchases of equity investments	223,188	(62,751,077)
- purchases of property and equipment	(437,980)	-
- purchases of intangible assets	(1,487,576)	(331,921)
Net cash flows from/used in investing activities (B)	**48,520,508**	**(22,739,052)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	-	6,122,502
- issues/purchases of equity instruments	250,000,048	4,474,966
- dividend distribution and other	-	(4,751,176)
Net cash flows from/used in financing activities C (+/-)	**250,000,048**	**5,846,292**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**62,925,303**	**(24,966,219)**

RECONCILIATION

	30/06/2019	30/06/2018
Cash and cash equivalents at beginning of period (E)	40,806,690	98,307,123
Net increase/decrease in cash and cash equivalents (D)	62,925,303	(24,966,219)
Cash and cash equivalents: effect of exchange rate changes (F)	-	-
Cash and cash equivalents at end of period (G)=E+/-D+/-F	103,731,993	73,340,904

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 interim financial statements of Iccrea Banca have been prepared in accordance with the accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as established by Regulation (EC) no. 1606 of July 19, 2002, as amended.

These interim consolidated financial statements are compliant with the provisions of IAS 34 and have been prepared using the formats and main tables provided for in Circular no. 262 of December 22, 2005 governing the format and rules for the preparation of bank financial statements – 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.

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

The IASs/IFRSs applied in preparing the consolidated financial statements were those in force at June 30, 2019, as endorsed by the European Commission (including the interpretations issued by the IFRIC).

The following table sets out the new international accounting standards and amendments to existing accounting standards, with the related endorsement regulations of the European Commission, that took effect that took effect, either on a mandatory basis or with the option of early adoption, as from January 1, 2019.

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1986/2017	**IFRS 16 Leases** The new standard, which replaces IAS 17, modifies the definition of a lease and establishes that lessees shall recognize assets and liabilities for a lease. The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents transactions. This information therefore gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The new standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leases from service contracts, specifying as discriminants the identification of the asset, the right to substitute it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the identified asset. Transactions excluded from the scope of application of the principle include, in particular: • licenses of intellectual property granted by a lessor within the scope of IFRS 15 "Revenue from Contracts with Customers"; • "rights held by a lessee under licensing agreements within the scope of IAS 38 "Intangible Assets". The standard also permits the application certain exceptions to the recognition requirement: • short-term leases, with a contractual term of 12 months or less; • leases in which the underlying asset is of low value. More specifically, under the definition in IFRS 16, a lease is a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The two conditions necessary for the existence of a lease are: • the existence of an identified and physically distinct asset; • the right to control the use of the asset, which is the lessee's right to obtain substantially all the economic benefits deriving from the use of the asset during the period of use and the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. There lessor must therefore not have a substantive right to substitute the asset. In addition to "leases" proper, lease contracts also include, for example, contracts for rent, hire, lease and free loans. For a contract that contains a lease component and additional non-lease components (such as in the case of the lease of an asset and the provision of maintenance services), the standard establishes that each lease component shall be recognized separately from the non-lease components. The consideration shall therefore be allocated to the various components based on their relative stand-alone prices, adopting the rationale of IFRS 15 for service contracts. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for all lease components a as a single lease component. The most significant changes introduced with the standard regard the lessee, who shall apply a single accounting model, eliminating the distinction between operating lease and finance lease, with an impact on both the income statement and the balance sheet. For any lease, the lessee shall recognize, respectively, under liabilities and assets in the balance sheet:	Annual reporting periods beginning on or after January 1, 2019

	• a lease liability, equal to the present value of future payments determined using the discount rate specified at the inception of the lease; • a right-of-use asset, equal to the lease liability plus initial direct costs. The lessee must measure the right-of-use asset by applying the cost model. The income statement will essentially reflect the depreciation charge for the right-of-use asset, recognized under operating expenses, and the interest accrued on the lease liability, recognized in net interest income. The distinction between operating and finance leases remains for the lessor, for which the approach under IFRS 16 does not introduce substantial changes with respect to IAS 17. The standard was endorsed by the European Commission on November 9, 2017 with Regulation no. 2017/1986 and takes affect starting from January 1, 2019. For the initial application of the standard, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recognizing the impact in shareholders' equity at January 1, 2018 as if the IFRS 16 had always been applied, with the restatement of the comparative data. The modified retrospective option provides instead: • for 2018 the application of IAS 17 without the need to restate the comparative data; • for 2019 the application of IFRS 16 with the recognition in shareholders' equity at January 1, 2019 (under reserves) of the cumulative effect of the new standard as at the date of initial application only of existing contracts at that date and the disclosure of the impact of initial application of the standard in the notes to the financial statements. The Group has elected to apply the modified retrospective option, which does not require the restatement of the comparative figures for 2018.	
498/2018	**Amendments to IFRS 9 Financial instruments - Prepayment Features with Negative Compensation** The amendments clarify the classification of certain financial assets with prepayment features when IFRS 9 is applied. More specifically: • for financial assets, they also permit measurement at amortized cost or, depending on the business model, at fair value through other comprehensive income, for loans that, in the event of early repayment, require a lender to make a payment (negative compensation payment); • for financial liabilities measured at amortized cost, they clarify the accounting for a modification that does not result in the derecognition of the financial liability. In these cases, at the date of the modification the adjustment of the amortized cost of the liability, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, shall be recognized in profit or loss.	Annual reporting periods beginning on or after January 1, 2019
1595/2018	**IFRIC 23 – Accounting for uncertainties in income taxes** The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 in the case of uncertainties in income taxes.	Annual reporting periods beginning on or after January 1, 2019
237/2019	**Amendments to IAS28** The amendments clarify that the provisions of IFRS 9 should be used to represent long-term interests in associates or joint ventures for which the equity method is not applied.	Annual reporting periods beginning on or after January 1, 2019
402/2019	**Amendments to IAS 19** The amendments specify how entities should determine employee benefits following amendments, curtailments or settlements of defined benefit plans.	Annual reporting periods beginning on or after January 1, 2019
412/2019	**Annual improvements to IFRS Standards 2015-2017 cycle** The improvements modify the IFRS in response to issues mainly concerning IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes and IAS 23 – Borrowing costs.	Annual reporting periods beginning on or after January 1, 2019

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers.	Annual reporting periods beginning on or after January 1, 2022
To be determined	**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
To be determined	**Amendments to IFRS 3: Definition of a business** 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
To be determined	**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

Compliance with IFRS 16

On January 13, 2016, the IASB published IFRS 16 – Leases, which is intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard establishes a new definition of lease and introduces a criterion based on the notion of control (right of use) of an identified asset for a specified period of time. This definition makes it possible to distinguish lease contracts from service supply contracts, identifying the discriminating features of leases as:

- the identification of the asset;
- the right to substitute the asset;
- the right to obtain substantially all the economic benefits from the use of the asset;
- the right to direct the use of the asset underlying the contract.

That said, it follows that also contracts for rent, hire and lease fall within the scope of application of the new rules.

Significant changes have been introduced in the accounting for lease transactions in the financial statements of the lessee.

The standard establishes a single accounting model for the recognition and measurement of leases for the lessee, providing for the recognition of the right of use (RoU) in respect of the leased asset, including operating assets, with the concomitant recognition of a liability for lease payments still to be paid to the lessor. At the same time, the new standard provides for the recognition in profit or loss of the depreciation charges for the "right of use" asset and the interest expense accrued on the liability.

A number of changes have also been made to the requirements for disclosures in the notes to the financial statements, which among other things must at least contain:

- a breakdown of the different classes of leased assets;
- a maturity analysis of the lease liabilities;
- relevant information for the assessment of leases (for example the presence or absence of termination options, extension options, etc.).

With regard to the recognition of rights of use in respect of software, the Iccrea Cooperative Banking Group intends to exclude such rights from the scope of application of IFRS 16, due in part to the clarifications provided by the Cloud Computing Arrangement issued by IFRIC in September 2018.

The application of the new standard gives rise to:

- an increase in assets due to the recognition of the right of use;
- an increase in liabilities due to the recognition of lease liabilities for future lease payments through to the expiry of the contract;
- a reduction in administrative expenses due to non-recognition of lease payments as previously required under IAS 17;
- an increase in financial expense for interest expense on the lease liabilities;
- an increase in depreciation charges for the rights of use, which are systematically depreciated on a straight-line basis over the useful life of the assets.

Conversely, the introduction of the standard does not involve significant changes for lessors.

These effects do not change the overall cash flows and total final cost of the lease. With regard to the overall cost, the impact on profit or loss does not vary over the term of the lease contract compared with the treatment under previous accounting standards, but only distributes them differently over time.

During 2019 the Group began a specific project for the implementation of IFRS 16 at all Group companies which includes:

- organizational measures;
- application measures;
- staff training initiatives.

A. Leases within the scope of IFRS 16

In order to account properly for leases under the provisions of IFRS 16, both in the transition to the new standard and on an ongoing basis, it is necessary to:

- identify and manage the operating leases outstanding at January 1, 2019 that meet the definition of lease under IFRS 16 and the contracts to which the exceptions apply;
- calculate the value of the right of use acquired with the lease and the lease liability.

The analysis of the contracts falling within the scope of application of the standard regarded in particular:

- real estate;
- cars;
- hardware;
- other technologies (tablets, telephones, ATMs, etc.).

Real estate had the greatest impact in terms of an increase in property, plant and equipment as a result of the recognition of rights of use and the related lease liabilities. The buildings are mostly used for banking (branches) and headquarters operations.

Other leases regard assets such as cars and hardware. Auto leases regard refer cars assigned to employees or Group companies for business use. These contracts usually take the form of "long-term rentals", and are therefore of multi-year duration and usually do not include a purchase option.

B. Transition rules

The Group has adopted the "cumulative catch-up approach" for first-time adoption of the new standard.

Under the cumulative catch-up method, the lessee shall apply 'IFRS 16 to its leases, retrospectively recognizing the cumulative impact of the initial application of IFRS 16 at the initial application date, without restating comparative information and recognizing the cumulative effect of FTA as an adjustment to retained earnings (or other component of equity, as appropriate) at the date of initial application (paragraph C7). The lessee shall (p. C8):

- recognize a lease liability at the date of initial application for leases previously classified as an operating lease, measuring that lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application;
- recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease, choosing, on a lease-by-lease basis, to measure that right-of-use asset at either:
    - its carrying amount as if IFRS 16 had always been applied, but discounted using the lessee's incremental borrowing rate at the date of initial application (cumulative catch-up method – option 1); or
    - 2. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments (cumulative catch-up method – option 2).

The Group has elected to apply option 2.

In addition, it is possible to apply a number of specific transition rules and practical expedients to leases that had previously been classified as operating leases.

The expedients that the Group has elected to adopt at first-time application are as follows:

- the exclusion from the scope of application of leases with a residual term of less than 12 months from the date of initial application (short-term leases);
- the exclusion from the scope of application of leases for which the underlying asset has a market value when new equal to or less than €5 thousand (low-value leases);
- assessment of the onerous nature of leases performed pursuant to IAS 37 immediately prior to the date of initial application of the standard.

The lease payments in respect of short-term and low-value leases are recognized in profit or loss as they were in the past.

C. Term of leases – determination of useful life

The term of a lease is determined on the basis of the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The duration of the useful life of right-of-use assets was defined both at first-time application of the standard and at initial recognition of the leases, based on the facts and circumstances existing at that particular date. The reasons for any exercise of the options provided for in the contracts were therefore evaluated.

The following provides a number of rules established for the types of assets involved in the most common and significant leases held within the Iccrea Cooperative Banking Group.

1. Real estate

The identification of the lease term is a very important issue since the form, legislation and commercial practices surrounding real estate leases vary significantly. Based on historical experience, the Group has included, in addition to the non-cancellable period, the first contractual renewal period in the useful life in the event that renewal depends exclusively on the lessee.

Accordingly, both on the date of FTA and on initial recognition of a lease under IFRS 16, the first reasonably certain contract renewal was considered, unless there were actual and concrete facts and circumstances that would lead to a different conclusion. In the case of a rental contract for a building with a term of 6 years with a tacit renewal option at the end of the first six-year period, the term considered for the determination of the useful life of the right-of-use asset is 12 years, unless there are elements or specific situations within the contract that would lead to a different conclusion.

2. Automobiles

For this type of lease, the useful life considered at FTA and at initial recognition of leases within the scope of application is considered to be the effective term of the contract.

D. Discounting lease liabilities

As required by IFRS 16, the discount rate is equal to the rate implicit in the lease, where this can be determined.

Alternatively, the rate used in determining intercompany fund transfer pricing (FTP) is adopted. The model adopted by the Group is based on a building block approach, the components of which reflect the type of operations and the management choices made for strategic purposes in the management of interest rate risk and liquidity risk. The framework is reviewed at least annually, discussed within the Finance Committee in line with the Strategic Plan and approved by the Board of Directors of the Parent Company. The customer rate is equal to the sum of the cost of funding and a commercial spread.

E. Lease components and non-lease components

Where possible, non-lease components are accounted for separately from the lease components. Where it is not possible to separate the two types of component or where the non-lease components are not material, they have been included in the determination of the lease liability and the associated right-of-use asset.

F. The impact of initial application of IFRS 16

The application of the cumulative catch-up transition method did not have any impact on shareholders' equity.

In addition, during the period interest expense and depreciation amounting to €463 thousand was recognized.

At June 30, 2019 right-of-use assets amounted to €2,131 thousand, while lease liabilities came to €2,144 thousand.

Section 2: General preparation principles

The interim consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements, along with the report on operations and the performance and 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.

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 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;
- the quantification of provisions for legal and tax risks and charges.

The main factors estimated for each type of item 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).

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.

Content of the financial statements and the explanatory

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 savings shares), capital reserves, earnings 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, with particular reference to IAS 34 Interim Financial Reporting, using the tables provided for in Bank of Italy Circular no. 262/2005 – 6th update of November 30, 2018.

Section 3 – Events subsequent to the reporting date

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

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

Section 4 – Other information

Consolidated tax mechanism option

Iccrea Banca SpA and the subsidiaries of the former Iccrea Banking Group (IBG) 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 IBG companies that opted to 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 condensed interim financial statements have undergone a limited audit performed by EY S.p.A., which was engaged for this purpose for the period 2019-2020 in execution of the shareholders' resolution of April 30, 2019 and has also been engaged to control the accounts pursuant to Article 14 of Legislative Decree 39/2010.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

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").

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;
- "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.

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 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.

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 performing 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 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;
- 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;
- 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.

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.

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 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". 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, as well as though amortization of the difference between the carrying amount and the amount repayable at maturity.

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 of the hedged item is offset with the change in the fair value of the hedging instrument. That offsetting is recognized by recognizing the changes in the value of both the hedged item (changes generated by the risk for which the hedge was established) and the hedging instrument in profit of 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. If the tests carried out do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the criteria set out in this section, the accounting policies envisaged for the category to which the derivative belongs are applied, and the derivative is reclassified as a trading instrument. Subsequent changes in 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.

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

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

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

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

In determining the nature of the equity interest, only elements present at the level of the separate financial statements are considered (percentage holding, actual and potential voting rights, situations of de facto significant influence). 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, associates and joint ventures are measured at cost. Where there is evidence that the value of an equity investment may be impaired, its recoverable value is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized 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 IAS 39, as provided for financial instruments.

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

Recognition of income components

Dividends received from equity investments measured at cost are recognized in profit or loss when the right to receive the payment is established. Impairment losses on subsidiaries, associates and joint arrangements measured at cost are recognized in profit or loss. 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.

6 – Property and equipment

Classification

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

Recognition

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

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

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

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

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

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

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 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.

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 is recognized in an amount equal to the positive difference between the fair value of the assets and liabilities acquired and the purchase price of the business combination if that positive difference represents future economic benefits. The difference between the purchase price of the business combination and the fair value of the assets and liabilities acquired is recognized through profit or loss if it is negative or if it does not represent future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

Intangible assets recognized at cost are amortized on a straight-line basis over the estimated remaining useful life of the asset, which for applications software does not exceed 5 years. Goodwill is not amortized and is tested for impairment at the 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 former Iccrea Banking Group (IBG) 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 IBG companies opted to offset against taxes for subsequent years. Current tax assets also report tax receivables for which the IBG companies have requested reimbursement from the competent tax authorities.

While taking account of the adoption of the national consolidated taxation mechanism by the IBG companies, the tax positions of the Bank and those originated by other companies of the IBG are managed separately for administrative purposes.

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

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

Recognition and measurement

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

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

The potential taxation in respect of items on which taxation has been suspended that will be “taxed in the event of any use” is recognized as a reduction in equity. Deferred taxes in respect of revaluations prompted by conversion of amounts to the euro that were directly allocated to a specific reserve ex 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

Recognition and classification

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

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

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

Measurement and recognition of income components

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

Derecognition

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

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the 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 classified as available for sale, 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 or from the 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 change with respect to the situation prior to December 31, 2006 relates to the actuarial assumptions of the model, which must incorporate the rate of salary increases provided for by Article 2120 of the Civil Code (application of a rate equal to 1.5% plus 75% of the change in the ISTAT inflation index) and not that estimated by the company. As a result, the termination benefit provision at December 31, 2006 was measured using the new model, which no longer takes account of a number of variables such as the average annual rate of salary increases, pay grades based on seniority, and the percentage increase in salary due to promotion.

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

Therefore, starting January 1, 2007, the Bank:

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

Recognition of 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.

The recognition of certain types of revenue has become a significant issue since the adoption, with effect from January 2018, of IFRS 15 - Revenue from contracts with customers, which was endorsed with the publication of Regulation no. 1905/2016. Subsequently, in 2017, Regulation 1987/2017 was approved, introducing changes designed to clarify certain aspects and providing a number of operational simplifications of use during the transition phase.

The entry into force of the standard entailed the repeal of IAS 18 - Revenue and IAS 11 – Construction contracts, as well as the related interpretations.

The main new features are:

- the creation of a single framework for the recognition of revenue covering both the sale of goods and the provision of services;
- the adoption of a step approach;
- the introduction of a mechanism that enables the allocation of the total price of the transaction to the individual performance obligations (sale of goods and/or provision of services) included in the sale contract.

The standard introduces the following steps in the recognition of revenue:

- 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. IFRS 15 specifies that 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”; they are amortized over a period no greater than the term of the lease and the amortization charges are reported under other operating expenses.

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;[15]
  - 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;[16] In this case, the lifetime expected loss is measured;
- in this case the expected loss is measured over the entire lifetime of the financial instrument;
- 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 were derived from Standard & Poor's matrices by attributing conventional PD measures where PDs other than 0 are not available. The metrics subsequently undergo forward-looking conditioning;

Loss Given Default (LGD): the LGD measure used is the same for both stage 1 and stage 2 exposures, adopting separate LGD measures for European government securities and other bond exposures. The metrics subsequently undergo forward-looking conditioning;

Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

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

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

In order to obtain a probability of default that reflects future macroeconomic conditions, “satellite models” are estimated, differentiated by type of counterparty, which make it possible to explain the relationship linking default rates to a set of explanatory macroeconomic variables. The

[15] This condition holds for positions that at reporting date have a conditional PD at 12 months of more than 20%.

[16] 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).

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.[17]

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.

Other non-financial assets

Property and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined on the basis of the fair value of the item of property and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined and it is greater than the fair value.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

For other property and equipment and intangible assets (other than those recognized following a business combination) it is assumed that the carrying amount normally corresponds to the value in use, as determined by a normal process of depreciation or amortization estimated on the basis of the actual contribution of the asset to the production process and having determined that the determination of fair value would be highly uncertain. The two values differ, giving rise to an impairment loss, in the case of damage, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each 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.

[17] 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.

The carrying amount of the CGU must be determined in a manner consistent with the criteria used to determine its recoverable value. From the standpoint of a banking enterprise, it is not possible to determine the cash flows of a CGU without considering the flows generated by financial assets and liabilities, given that the latter represent the core business of the company. In other words, the recoverable value of the CGUs is impacted by those cash flows and, accordingly, the carrying amount of the CGUs must be determined using the same scope of estimation used for the recoverable value and, therefore, must include the financial assets/liabilities. To that end, these assets and liabilities must be allocated to the CGUs.

Following this approach, the carrying amount of the CGUs of Iccrea can be determined in terms of their contribution to consolidated shareholders' equity, including non-controlling interests.

The value in use of a CGU is calculated by estimating the present value of the future cash flows that are expected to be generated by the CGU. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles. In addition, in view of the different risks in each CGU's area of operations, different betas are also adopted.

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

For financial instruments, fair value is determined through the use of prices acquired from financial markets - in the case of instruments listed on active markets - or through the use of internal valuation models for other financial instruments. A financial instrument is considered to be listed on an active market if the quoted prices, which reflect normal market transactions, are readily and regularly available through stock exchanges, brokers, intermediaries, sector companies, pricing services, authorized bodies or regulatory authorities or multilateral trading facilities (MTF) and if these prices represent actual and regular market transactions occurring on the basis of a normal reference period.

With regard to the above, for an asset held or a liability to be issued, fair value is usually the current offer price ("bid"), while for an asset to be purchased or a liability issued it is the current requested price ("ask"). In the absence of a listing on an active market or in the absence of an orderly market, i.e. when the market does not have a sufficient and continuous number of transactions or bid-ask spreads and volatility are not sufficiently limited, the fair value of financial instruments it is mainly determined using valuation techniques with the aim of establishing the price of a hypothetical independent transaction undertaken for normal market reasons at the valuation date.

Valuation techniques consider:

- if available, prices in recent transactions in similar instruments appropriately adjusted to reflect changes in market conditions and technical differences between the instrument being valued and the instrument selected as similar (the comparable approach);
- valuation models, widely used by the financial community, which have been demonstrated over time to produce reliable price estimates in current market conditions.

Financial instruments are divided into three hierarchical levels on the basis of the characteristics and materiality of the inputs used in the measurement process:

- **Level 1**: quoted prices (unadjusted) in active markets for the financial assets or liabilities being measured;
- **Level 2**: quoted prices in active markets for similar assets or liabilities or prices calculated through valuation techniques where all significant inputs are based on parameters that can be observed (directly or indirectly) on the market;
- **Level 3**: when prices are calculated using valuation techniques that use significant inputs based on parameters that cannot be observed on the market.

The choice between the above categories is not discretionary and the valuation techniques adopted shall maximize the use of observable market inputs, relying as little as possible on subjective parameters.

In hierarchical order, for the financial assets and liabilities to be valued, in the absence of active markets (effective market quotes - Level 1), the valuation techniques adopt inputs that are directly or indirectly observable on the market that are not quoted prices of the financial instrument (comparable approach - Level 2) or, in the absence or in the presence of parameters drawn only partially from inputs observable on the market, the fair value is calculated on the basis of valuation techniques widely used by the financial community and, therefore, are more discretionary (mark to model approach - Level 3).

The following are generally considered to be quoted on an active market (Level 1):

- listed equity securities;
- government securities listed on regulated markets;
- bonds with a significant price contribution;
- listed funds or funds with a NAV (net asset value) calculated on a daily basis;
- derivative contracts for which quotations are available on a regulated market (listed derivatives).

For financial instruments listed on active markets, the bid price is used for financial assets and the ask price is used for financial liabilities, as observed on the principal trading market at the close of the reference year. In the case of financial instruments for which the bid-ask spread is not very relevant, or for financial assets and liabilities whose characteristics would prompt the assumption of offsetting positions for market risk, an average market price is used (always referring to last day of the reference year) instead of the bid or ask price.

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

- the comparable approach (Level 2), which presupposes the presence of prices quoted on non-active markets for identical instruments or prices listed on active markets for similar instruments as assessed in terms of risk-return, maturity and other trading conditions. In particular, if current market prices are available for other instruments that are highly comparable (based on the country and sector of origin, rating, maturity and seniority of the securities), the valuation of the Level 2 instrument corresponds to the quoted price of the similar instrument, possibly adjusted on the basis of observable market factors.
- the model valuation approach (Level 2 or Level 3) based on the use of valuation models aimed at maximizing the use of inputs observable on the market.

The most commonly used valuation techniques are:

- discounted cash flow models;
- option pricing models.

For derivative contracts, in consideration of their number and complexity, a systematic reference framework has been developed to represent the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) on which the valuation of each category of derivative instruments is based.

Interest rate, exchange rate, equity and inflation derivatives that are not traded on regulated markets are considered over-the-counter instruments, i.e. bilaterally traded with market counterparties, and they are valued using specific pricing models based on observable market inputs (such as yield curves, exchange rates, volatility).

For structured credit products and ABSs, if significant prices are not available, valuation techniques are used that take account of parameters that can be drawn from the market.

To determine the fair value of certain types of financial instruments, it is necessary to use valuation models that call for the use of parameters that are not directly observable on the market and therefore involve the use of estimates and assumptions (Level 3). In particular, the so-called mark-to-model approach applies to all financial instruments not listed on an active market when:

- although observable data is available, significant adjustments must be made to that data on the basis of unobservable data;
- the estimate is based on the Bank's internal assumptions about the future cash flows and the adjustment for discount curve risk.

In any case, the objective is to obtain a value for the instrument that is consistent with the assumptions that market participants would employ in formulating a price. These assumptions also concern the risk inherent in a particular valuation technique and/or in the inputs used. However, IFRS 13 requires entities to develop these assumptions within the limits of reason, without having to make exhaustive efforts to determine such information.

The valuation method developed for a financial instrument is adopted continuously over time and is modified only after significant changes in market conditions or in the subjective condition of the issuer of the financial instrument.

For the purposes of disclosures on financial instruments measured at fair value, the hierarchy indicated above for the determination of fair value is used consistently for the allocation of accounting portfolios based on fair value levels (see section A.3 of the Part A).

Further information regarding the models used in determining fair value are reported in Part E of the notes to the financial statements.

All the rules and responsibilities for the measurement of the Bank's financial instruments are governed in the Fair Value Policy, a document that identifies the main components of the entire methodological framework in terms of:

- definition of the roles and responsibilities of corporate bodies and functions;
- classification criteria for financial instruments;
- rules for the classification within the fair value hierarchy envisaged by IFRS 7 and IFRS 13;
- valuation techniques and methods for financial instruments;
- management and control processes for the valuation of financial instruments;
- methodologies for hedging financial instruments (hedging policy);
- information flows.

Non-financial assets

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

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

The issue of IFRS 13 established a single guideline for measuring the fair value of financial instruments and non-financial assets and liabilities when the application of fair value is required or permitted under the international accounting standards.

In particular, IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

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;
- intercompany loans (classified under L2): the discounted cash flow model;
- bad debts 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

	30/6/2019			31/12/2018		
	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	585,356	954,158	95,285	125,588	682,136	88,894
a) financial assets held for trading	40,251	554,214	58	76,964	263,665	390
b) financial assets designated as at fair value	492,359	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	52,746	399,945	95,227	48,624	418,472	88,505
2. Financial assets measured at fair value through comprehensive income	267,421	82,930	12,480	197,680	48,595	36,670
3. Hedging derivatives	-	6,336	-	-	7,715	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**852,777**	**1,043,424**	**107,765**	**323,268**	**738,447**	**125,565**
1. Financial liabilities held for trading	3,943	553,663	-	3,515	247,614	-
2. Financial liabilities designated as at fair value	-	-	423,550	-	-	-
3. Hedging derivatives	-	159,156	-	-	63,305	-
Total	**3,943**	**712,819**	**423,550**	**3,515**	**310,918**	**-**

Key
L1=Level 1
L2= Level 2
L3= Level 3

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 involved a decrease of about €19 thousand, while the Debt Value Adjustment did not give rise to any changes.

A.5 - DISCLOSURE ON “DAY ONE PROFIT/LOSS”

During the period under review, no 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 IFRS9 (paragraphs B.5.1.2 A letter b).

PART B
Information on the balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
a) Cash	88,216	40,807
b) Demand deposits with central banks	15,516	-
Total	103,732	40,807

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.

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 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**36,692**	**4**	**-**	**76,496**	**507**	**170**
1.1 structured securities	282	-	-	273	153	151
1.2 other debt securities	36,410	4	-	76,222	354	19
2. Equity securities	**3,253**	**178**	**58**	**-**	**21**	**219**
3. Units in collective investment undertakings	**237**	**-**	**-**	**454**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	40,181	182	58	76,950	528	390
B. Derivatives						
1. Financial derivatives	**70**	**554,032**	**-**	**14**	**263,137**	**-**
1.1 trading	70	554,032	-	14	263,137	-
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)	70	554,032	-	14	263,137	-
Total (A+B)	40,251	554,214	58	76,964	263,665	390

Key
L1=Level 1
L2= Level 2
L3= Level 3

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**492,359**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	492,359	-	-	-	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
Total	**492,359**	**-**	**-**	**-**	**-**	**-**

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 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**11,032**	**31,108**	**-**	**23,712**	**34,492**	**-**
1.1 structured securities	-	14,754	-	-	18,531	-
1.2 other debt securities	11,031	16,354	-	23,712	15,961	-
2. Equity securities	**2,671**	**-**	**20,547**	**1,983**	**8,816**	**15,634**
3. Units in collective investment undertakings	**39,044**	**368,836**	**13,433**	**22,930**	**375,164**	**12,208**
4. Loans	**-**	**-**	**61,248**	**-**	**-**	**60,663**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	61,248	-	-	60,663
Total	**52,746**	**399,944**	**95,227**	**48,624**	**418,472**	**88,505**

Key
L1=Level 1
L2= Level 2
L3= Level 3

"Units in collective investment undertakings" includes, among others, the units of the closed-end investment funds "Securis Real Estate" managed by Investire SGR, in the amounts of:

- Fondo Securis Real Estate III €73,253 thousand;
- Fondo Securis Real Estate II €135,874 thousand;
- Fondo Securis Real Estate I €159,709 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 30/6/2019			Total 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**260,540**	**55,777**	**-**	**191,615**	**48,595**	**-**
1.1 structured securities	5,832	3,997	-	3,981	-	-
1.2 other debt securities	254,708	51,780	-	187,634	48,595	-
2. Equity securities	**6,880**	**27,153**	**12,480**	**6,065**	**-**	**36,670**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**267,420**	**82,930**	**12,480**	**197,680**	**48,595**	**36,670**

Key
L1=Level 1
L2= Level 2
L3= Level 3

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	289,542	-	27,155	-	(79)	(300)	-	-
Loans	-	-	-	-	-	-	-	-
Total 30/6/2019	**289,542**	**-**	**27,155**	**-**	**(79)**	**(300)**	**-**	**X**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

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 30/6/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-	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	**797,879**	**-**	**-**	**-**	**797,879**	**-**	**227,243**	**-**	**-**	**-**	**-**	**227,243**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	797,879	-	-	X	X	X	227,243	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**25,540,418**	**-**	**-**	**-**	**24,448,570**	**768,036**	**25,427,510**	**-**	**-**	**-**	**6,547,049**	**18,718,685**
1. Financing	21,312,272	-	-	-	20,383,109	689,113	20,796,596	-	-	-	2,201,937	18,594,671
1.1. Current accounts and demand deposits	771,014	-	-	X	X	X	658,003	-	-	X	X	X
1.2. Fixed-term deposits	69,144	-	-	X	X	X	114,702	-	-	X	X	X
1.3. Other financing:	20,472,114	-	-	X	X	X	20,023,891	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	5,062	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	20,472,114	-	-	X	X	X	20,018,829	-	-	X	X	X
2. Debt securities	4,228,146	-	-	-	4,065,460	78,922	4,630,914	-	-	-	4,345,112	124,014
2.1 Structured securities	1,981	-	-	-	-	25	37,196	-	-	-	-	-
2.2 Other debt securities	4,226,165	-	-	-	4,065,460	78,897	4,593,718	-	-	-	4,345,112	124,014
Total	**26,338,297**	**-**	**-**	**-**	**25,246,448**	**768,036**	**25,654,753**	**-**	**-**	**-**	**6,547,049**	**18,945,928**

Key
L1=Level 1
L2= Level 2
L3= Level 3

The sub-item “reserve requirement” includes the requirements managed on behalf of the mutual banks, with a contra-item under “Financial liabilities measure at amortized cost - Due to banks”.

The sub-item “Current accounts and demand deposits” includes cash held on the Euroclear account connected with the Guarantee Scheme.

Loans connected with pool collateral operations amount to €18,460 million of which €9,726 million granted within the framework of TLTRO II and included under letter “B”, item “Other financing– Other”. Securities pledged as collateral amount to €20,824 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 June 30, loans received from Iccrea BancaImpresa securing the collateral pool amounted to €2,438 million, which net of the haircut decreased to about €1,124 million.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/6/2019						Total 31/12/2018					
	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	**4,724,411**	**10,420**	**-**	**-**	**2,802,917**	**1,956,416**	**3,817,231**	**14,978**	**-**	**-**	**1,734,919**	**2,248,712**
1.1. Current accounts	259,346	204	-	X	X	X	318,630	196	-	X	X	X
1.2. Repurchase agreements	1,998,871	-	-	X	X	X	1,199,151	-	-	X	X	X
1.3. Medium/long term loans	76,513	10,089	-	X	X	X	82,856	14,648	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	-	1	-	X	X	X	-	1	-	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	2,389,680	125	-	X	X	X	2,216,595	131	-	X	X	X
2. Debt securities	**6,808,895**	**110,380**	**-**	**6,147,046**	**243,202**	**363,419**	**6,760,638**	**113,972**	**-**	**6,076,850**	**129,990**	**426,684**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	6,808,895	110,380	-	6,147,046	243,202	363,419	6,760,638	113,972	-	6,076,850	129,990	426,684
Total	**11,533,306**	**120,799**	**-**	**6,147,046**	**3,046,119**	**2,319,835**	**10,577,870**	**128,950**	**-**	**6,076,850**	**1,864,909**	**2,675,396**

4.4 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: GROSS AMOUNT AND TOTAL WRITEOFFS

		Gross amount				Total writeoffs			
		Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total and partial writeoffs*
Debt securities		11,033,769	-	7,880	110,380	(930)	(3,678)	-	-
Loans		26,686,199	593,563	152,148	48,868	(2,654)	(1,132)	(38,448)	(1,866)
Total	**30/6/2019**	**37,719,969**	**593,563**	**160,027**	**159,247**	**(3,584)**	**(4,809)**	**(38,448)**	**(1,866)**
Total	**31/12/2018**	**36,143,862**	**1,695,251**	**96,235**	**168,560**	**(2,945)**	**(4,529)**	**(39,610)**	**-**
of which: financial assets purchased or originated credit-impaired		X	X	-	-	X	-	-	-

SECTION 5 - HEDGING DERIVATIVES – ITEM 50

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

	FV 30/6/2019			NV	FV 31/12/2018			NV
	L1	L2	L3	30/6/2019	L1	L2	L3	31/12/2018
A. Financial derivatives								
1. Fair value	-	4,439	-	50,000	-	4,516	-	204,093
2. Cash flows	-	1,897	-	21,968	-	3,199	-	34,934
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**6,336**	**-**	**71,968**	**-**	**7,715**	**-**	**239,028**

Key:
FV = Fair value
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 30/6/2019	Total 31/12/2018
1. Positive adjustments	**1,498**	**764**
1.1 of specific portfolios:	1,498	-
a) financial assets measured at amortized cost	-	-
b) financial assets measured at fair value through comprehensive income	1,498	-
1.2 comprehensive	-	764
2. Negative adjustments	**-**	**(13)**
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	-	(13)
Total	**1,498**	**750**

SECTION 7 - EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% of votes
A. Subsidiaries				
Iccrea BancaImpresa S.p.A.	Rome	Rome	99.42	99.42
BCC Beni Immobili S.r.l.	Milan	Rome	100	100
BCC Retail S.c.a.r.l.	Milan	Milan	39.3	39.3
Ventis S.r.l.	Milan	Milan	95	95
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	68.58	68.58
Banca MedioCredito FVG S.p.A.	Udine	Udine	26.84	26.84
Securfondo	Rome	Milan	54.4	54.4
Bcc Accademia S.c.p.A.	Rome	Rome	100	100
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	49	49
BCC Assicurazioni S.p.A.	Milan	Milan	49	49
Satispay S.p.A.	Milan	Milan	15.09	15.09

Equity investments are represented by unlisted securities with the exception of the unit in the “Securfondo” closed-end real-estate investment fund.

During the period, 100% of BCC Accademia was acquired. Following the exit of a plurality of shareholders, the bank was placed in liquidation by the Extraordinary Shareholders’ Meeting of July 12, 2019.

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.	800,422	-	28,547
BCC Beni Immobili S.r.l.	18,314	-	-
BCC Retail S.c.a.r.l.	393	-	-
Ventis S.r.l.	-	-	-
Bcc Sistemi Informatici S.p.A.	45,025	-	-
BCC Risparmio e Previdenza SGrpA	22,474	-	6,375
BCC Gestione Crediti S.p.A.	4,021	-	3,973
BCC Solutions S.p.A.	75,700	-	-
BCC CreditoConsumo S.p.A.	55,041	-	11,328
Banca Sviluppo S.p.A.	87,052	-	-
Banca Mediocredito FVG S.p.A.	21,399	-	-
Securfondo	9,453	-	-
Bcc Accademia S.c.p.A.	800	-	-
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.	101,430	-	-
BCC Assicurazioni	8,080	-	-
Satispay S.p.A.	8,112	-	-
TOTAL	**1,259,200**	**-**	**50,223**

The investment held in Ventis was reclassified to “Non-current assets and disposal groups held for sale” in connection with the disposal of the electronic money business.

SECTION 8 - PROPERTY AND EQUIPMENT – ITEM 80

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

	Total 30/6/2019	Total 31/12/2018
1. Owned assets	**12,390**	**14,221**
a) land	-	-
b) building	-	-
c) movables	254	270
d) electrical plants	2,934	3,283
e) other	9,202	10,668
2. Assets acquired under finance leases	**2,131**	**-**
a) land	-	-
b) building	1,164	-
c) movables	-	-
d) electrical plants	-	-
e) other	967	-
Total	**14,521**	**14,221**
of which: obtained through enforcement of guarantees received	-	-

The item “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.

SECTION 9 - INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/6/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**26,233**	**-**	**27,043**	**-**
A.2.1 Assets carried at cost	26,233	-	27,043	-
a) internally generated intangible assets	-	-	-	-
b) other assets	26,233	-	27,043	-
A.2.2 Assets designated as at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**26,233**	**-**	**27,043**	**-**

SECTION 10 – TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL 30/6/2019	IRES	IRAP	TOTAL 31/12/2018
1) Recognized in income statement	**37,094**	**270**	**37,364**	**37,189**	**271**	**37,461**
a) DTA pursuant to Law 214/2011	**2,627**	**32**	**2,658**	**2,686**	**32**	**2,719**
Total	2,461	32	2,492	2,686	32	2,719
Goodwill and other intangible assets at December 31, 2014	-	-	-	-	-	-
Tax losses/negative value of production pursuant to Law 214/2011	166	-	166	-	-	-
b) Other	**34,467**	**239**	**34,706**	**34,503**	**239**	**34,742**
Writedowns of amounts due from banks	477	-	477	485	-	485
Writedowns of loans to customers	133	27	160	-	-	-
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	27,104	-	27,104	27,168	-	27,168
Writedowns of financial assets held for trading and financial assets at fair value	-	-	-	-	-	-
Writedowns of securities issued	-	-	-	-	-	-
Writedowns of financial liabilities held for trading and financial liabilities at fair value	-	-	-	-	-	-
Writedowns from impairment of guarantees issued recognized under liabilities	-	-	-	-	-	-
Provisions for risks and charges	3,366	-	3,366	3,254	-	3,254
Costs of predominantly administrative nature	-	-	-	76	-	76
Difference between value for tax purposes and carrying amount of property and equipment and intangible assets	-	-	-	-	-	-
Other	3,387	212	3,598	3,520	239	3,759
2) Recognized in shareholders' equity	**2,654**	**492**	**3,146**	**5,006**	**1,014**	**6,020**
a) Valuation reserves:	**2,353**	**477**	**2,830**	**4,768**	**966**	**5,734**
Capital losses on financial assets measured through OCI	2,353	477	2,830	4,768	966	5,734
b) Other:	**301**	**15**	**316**	**238**	**48**	**287**
Actuarial gains/losses on provisions for employees	225	-	225	-	-	-
Other	76	15	91	238	48	287
A. Total deferred tax assets	**39,748**	**762**	**40,510**	**42,196**	**1,285**	**43,481**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**(9)**	**(2)**	**(10)**
C. Net deferred tax assets	**39,748**	**762**	**40,510**	**42,187**	**1,283**	**43,471**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL 30/6/2019	IRES	IRAP	TOTAL 31/12/2018
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 and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
2) Deferred tax liabilities recognized in shareholders' equity:	**647**	**131**	**778**	**9**	**2**	**10**
Valuation reserves:	-	-	-	-	-	-
Capital losses on financial assets measured through OCI	647	131	778	9	2	10
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**647**	**131**	**778**	**9**	**2**	**10**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**(9)**	**(2)**	**(10)**
C. Net deferred tax assets	**647**	**131**	**778**	**-**	**-**	**-**

Deferred tax liabilities not recognized

Deferred tax liabilities in respect of the revaluation reserve established pursuant to Law 342/2000 (net of the special capital gains tax already paid €11,227 thousand), Law 413/1991 and Law 196/1983 have not been recognized. As the reserve is not expected to be distributed to shareholders, no provision had been made for deferred taxes in the amount of about €9.7 million.

10.7 OTHER INFORMATION

As regards its tax position, the Bank reports:

- for the financial years 2014, 2015, 2016 and 2017 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- on November 4, 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	30/6/2019	31/12/2018
A. Assets held for sale		
A.1 Financial assets	535	78,005
A.2 Equity investments	5,027	5,027
A.3 Property and equipment	4	5
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	2,148	2,321
A.5 Other non-current assets	141,051	61,436
Total A	**148,765**	**146,793**
of which carried at cost	148,658	141,766
of which measured at fair value level 1	-	-
of which measured at fair value level 2	107	-
of which measured at fair value level 3	-	5,027
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 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	98,231	98,133
C.2 Securities	-	-
C.3 Other liabilities	40,225	29,465
Total C	**138,456**	**127,598**
of which carried at cost	138,456	127,598
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 year, the Bank classified the assets and liabilities of the electronic money 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 30/6/2019	Total 31/12/2018
- Receivables for future premiums on derivatives	14,672	15,142
- Fees and commissions and interest to be received	4,395	773
- Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	32,334	43,437
- Items in transit between branches and items being processed	12,704	20,983
- Financial assets in respect of loans granted for a specific deal	85,761	-
- Accrued income not attributable to separate line item	1,033	-
- Prepaid expenses not attributable to separate line item	3,327	19,409
- Tax consolidation mechanism	15,136	11,629
- Other (security deposits, assets not attributable to other items)	23,963	71,492
Total	193,323	182,866

The sub-item “Financial assets in respect of loans granted for a specific deal” 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 30/6/2019				Total 31/12/2018			
	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	**12,749,961**	X	X	X	**13,765,693**	X	X	X
2. Due to banks	**7,381,843**	X	X	X	**5,658,927**	X	X	X
2.1 Current accounts and demand deposits	3,530,630	X	X	X	2,033,675	X	X	X
2.2 Fixed term deposits	3,638,260	X	X	X	3,377,354	X	X	X
2.3 Loans	210,018	X	X	X	246,476	X	X	X
2.3.1 Repurchase agreements	51,075	X	X	X	172,561	X	X	X
2.3.2 Other	158,943	X	X	X	73,915	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	2,935	X	X	X	1,422	X	X	X
Total	**20,131,804**	**-**	**19,481,594**	**232,204**	**19,424,621**	**-**	**610,024**	**18,814,597**

The item “Due to central banks” represents financing from the ECB.

The sub-item “Fixed-term deposits” also includes deposits received from the mutual banks amounting to around €757 million for indirect compliance with the reserve requirement.

1.2 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - DUE TO CUSTOMERS: COMPOSITION BY TYPE

	Total 30/6/2019				Total 31/12/2018			
	Carrying amount	Fair value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	679,227	X	X	X	369,280	X	X	X
2. Fixed-term deposits	50,054	X	X	X	-	X	X	X
3. Loans	11,784,594	X	X	X	11,791,402	X	X	X
3.1 Repurchase agreements	11,294,602	X	X	X	11,791,402	X	X	X
3.2 Other	489,992	X	X	X	-	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	2,144	X	X	X	-	X	X	X
6. Other liabilities	357,806	X	X	X	356,227	X	X	X
Total	**12,873,825**	**-**	**10,001,252**	**2,880,205**	**12,516,909**	**-**	**183,338**	**12,308,481**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

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

	30/6/2019 Total				31/12/2018 Total			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	5,300,750	2,781,206	2,542,690	-	5,027,706	2,604,168	2,316,836	-
1.1 structured	8,410	-	8,377	-	33,377	31,660	1,609	-
1.2 other	5,292,340	2,781,206	2,534,313	-	4,994,329	2,572,508	2,315,227	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**5,300,750**	**2,781,206**	**2,542,690**	**-**	**5,027,706**	**2,604,168**	**2,316,836**	**-**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

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 €205.6 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

At June 30, 2019 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, 2019: €71.3 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 June 18, 2015, Maturity date June 18, 2025, residual nominal value at June 30, 2019: €106.1 million, interest rate 6-month Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date June 29, 2015, Maturity date June 29, 2025, residual nominal value at June 30, 2019: €12 million, interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date July 30, 2015, Maturity date July 30, 2025, residual nominal value at June 30, 2019: €16 million, interest rate 6-month Euribor + 350 basis points, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.5 BREAKDOWN OF STRUCTURED DEBT

As at the reporting date the Bank held structured securities amounting to €8.4 million.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/6/2019					Total 31/12/2018				Fair value *
	NV	Fair value			Fair value *	NV	Fair value			
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	1,317	1,358	-	-	1,358	511	540	-	-	540
2. Due to customers	1,457	2,097	-	-	2,097	1,398	1,407	-	-	1,407
3. Debt securities	-	-	-	-		-	-	-	-	X
3.1 Bonds	-	-	-	-		-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-		-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**2,774**	**3,455**	**-**	**-**	**3,455**	**1,909**	**1,947**	**-**	**-**	**1,947**
B. Derivatives										
1. Financial derivatives		488	553,663	-		X	1,568	247,614	-	X
1.1 Trading	X	488	553,663	-	X	X	1,568	247,554	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	59	-	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**	**488**	**553,663**	**-**	**X**	**X**	**1,568**	**247,614**	**-**	**X**
Total (A+B)	**X**	**3,943**	**553,663**	**-**	**X**	**X**	**3,515**	**247,614**	**-**	**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

3.1 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/6/2019					Total 31/12/2018				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**419,576**	**-**	**-**	**423,550**	**423,550**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	419,576	-	-	423,550	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**419,576**	**-**	**-**	**423,550**	**423,550**	**-**	**-**	**-**	**-**	**-**

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

	NV 30/6/2019	Fair value 30/6/2019			NV 31/12/2018	Fair value 31/12/2018		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**3,800,830**	**-**	**159,156**	**-**	**3,305,268**	**-**	**63,305**	**-**
1) Fair value	3,756,893	-	158,079	-	3,261,599	-	62,021	-
2) Cash flows	43,937	-	1,077	-	43,668	-	1,284	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**3,800,830**	**-**	**159,156**	**-**	**3,305,268**	**-**	**63,305**	**-**

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 DISPOSAL – ITEM 70

See section 11 under assets.

SECTION 8 – OTHER LIABILITIES - ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
Amounts due to social security institutions and State	10,378	12,751
Amounts available to customers	4,573	6,273
Liabilities for future premiums on derivatives	5,412	6,051
Tax payables due to tax authorities	12,528	18,155
Payables due to employees	12,447	5,316
Financial liabilities in respect of loans granted for a specific deal	85,761	-
Accrued expenses not attributable to separate line item	1,465	-
Deferred income not attributable to separate line item	2,150	5,365
Items in transit and items being processed	74,552	40,187
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	135,158	179,833
Subsidiaries – Group VAT	6,655	7,218
Consolidated taxation mechanism	23,393	27,010
Total	374,472	308,159

The sub-item “Financial liabilities in respect of loans granted for a specific deal” regards the Parent Company’s contribution to the Guarantee Scheme.

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

	Total 30/6/2019	Total 31/12/2018
A. Opening balance	**10,176**	**11,312**
B. Increases	**5,691**	**1,352**
B.1 Provisions for the period	163	69
B.2 Other increases	5,528	1,283
C. Decreases	**197**	**2,488**
C.1 Benefit payments	197	1,003
C.2 Other decreases	-	1,485
D. Closing balance	**15,671**	**10,176**
Total	15,671	10,176

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
1. Provisions for credit risk in respect of commitments and financial guarantees issued	21	108
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	9,401	9,048
4.1 legal disputes	4,803	5,254
4.2 personnel expense	1,033	1,047
4.3 other	3,565	2,747
Total	9,422	9,156

The sub-item “legal disputes” includes €1,844 thousand for revocatory actions and €2,958 thousand for litigation and disputes. The sub-item “personnel expenses” includes seniority bonuses for employees.

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 120, 130, 140, 150, 160, 170 AND 180

12.1 “SHARE CAPITAL” AND “TREASURY SHARES”: COMPOSITION

	Total 30/6/2019	Total 31/12/2018
A. Share capital		
A.1 ordinary shares	1,401,045	1,151,045
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 PARENT COMPANY SHARES: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	22,285,487	-
- fully paid	22,285,487	-
- partially paid	-	-
A.1 Treasury shares (-)	(87,267)	-
A.2 Shares in circulation: opening balance	**22,198,220**	-
B. Increases	-	-
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	4,840,272	-
- 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 – ITEM 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transctions	Total 30/6/2019	Total 30/6/2018
1. Financial assets measured at fair value through profit or loss	**1,793**	**518**	**-**	**2,311**	**653**
1.1 Financial assets held for trading	553	-	-	553	125
1.2 Financial assets designated as at fair value	713	518	-	1,231	-
1.3 Other financial assets mandatorily at fair value	527	-	-	527	528
2. Financial assets measured at fair value through other comprehensive	**2,342**	**-**	**X**	**2,342**	**4,138**
3. Financial assets measured at amortized cost	**72,963**	**14,093**	**X**	**87,055**	**75,506**
3.1 Due from banks	33,711	2,102	X	35,813	33,632
3.2 Loans to customers	39,252	11,991	X	51,243	41,872
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**-**	**-**	**-**
6. Financial liabilities	**X**	**X**	**X**	**50,443**	**55,369**
Total	77,098	14,611	-	142,152	135,664
of which: interest income on impaired financial assets	554	7	-	561	1,781
of which: interest income from finance leases	-	-	-	-	-

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/6/2019	Total 30/6/2018
1. Financial liabilities measured at amortized cost	**(20,047)**	**(43,730)**	**X**	**(63,777)**	**(53,802)**
1.1 Due to central banks	(10)	X	X	(10)	-
1.2 Due to banks	(18,527)	X	X	(18,527)	(8,755)
1.3 Due to customers	(1,510)	X	X	(1,510)	(33)
1.4 Securities issued	X	(43,730)	X	(43,730)	(45,014)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated as at fair value	**(581)**	**-**	**-**	**(581)**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**(8,783)**	**(8,783)**	**(12,155)**
6. Financial assets	**X**	**X**	**X**	**(39,600)**	**(43,637)**
Total	(20,628)	(43,730)	(8,783)	(112,741)	(109,595)
of which: interest expense on lease liabilities	(28)	-	-	(28)	-

SECTION 2 – FEES AND COMMISSIONS – ITEM 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
a) guarantees issued	556	41
b) credit derivatives	-	-
c) management, intermediation and advisory services:	12,518	8,681
1. trading in financial instruments	1,695	2,542
2. foreign exchange	85	118
3. asset management	-	-
4. securities custody and administration	4,134	3,066
5. depository services	-	-
6. securities placement	5,082	1,888
7. order collection and transmission	1,117	478
8. advisory services	406	589
8.1 concerning investments	-	-
8.2 concerning financial structure	406	589
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	19,250	21,466
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	110	114
j) other services	8,625	174,952
Total	**41,059**	**205,253**

The increase in the sub-item “a) guarantees issued” reflects clearing system fees in respect of the Ex Post Quota of the Guarantee Scheme contribution.

The decrease in “Other services” mainly reflects the disposal of the electronic money business (€174 million), reported under “Profit (loss) on discontinued operations after tax”; the sub-item also includes €5 million attributable to the GACS II transaction.

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
a) guarantees received	(770)	-
b) credit derivatives	-	-
c) management and intermediation services:	(3,193)	(3,598)
1. trading in financial instruments	(632)	(465)
2. foreign exchange	(18)	(24)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(2,019)	(1,682)
5. placement of financial instruments	(525)	(1,428)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(1,630)	(2,944)
e) other services	(1,635)	(123,061)
Total	(7,228)	(129,603)

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.

The decrease in "Other services" from €123 million in 2018 to €1.6 million in 2019 mainly reflects the reclassification of the electronic money business line (€133 million) under "Profit (loss) on discontinued operations after tax".

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/6/2019		Total 30/6/2018	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	45	-	515	-
B. Other financial assets mandatorily measured at fair value	368	-	354	-
C. Financial assets measured at fair value through other comprehensive income	590	-	401	-
D. Equity investments	50,223	-	41,345	-
Total	51,226	-	41,615	-

Dividends received mainly regard:

- BCC Credito Consumo €11.3 million
- BCC Risparmio e Previdenza €6.3 million
- Iccrea Banca Impresa €28.5 million
- BCC Gestione Crediti €3.9 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	**71**	**4,437**	**(114)**	**(1,031)**	**3,363**
1.1 Debt securities	48	4,251	(65)	(998)	3,235
1.2 Equity securities	13	137	(49)	(32)	69
1.3 Units in collective investment undertakings	10	48	-	-	58
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
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**	**(114,420)**
4. Derivatives	**159,271**	**50,787**	**(160,701)**	**(50,328)**	**116,070**
4.1 Financial derivatives:	159,271	50,787	(160,701)	(50,328)	116,070
- on debt securities and interest rates	158,495	50,701	(160,510)	(49,494)	(807)
- on equity securities and equity indices	775	86	(191)	(834)	(164)
- on foreign currencies and gold	X	X	X	X	117,041
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**159,341**	**55,225**	**(160,815)**	**(51,359)**	**5,013**

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

For the purpose of recognizing the results of hedging activities, the Bank exercised the option provided for in paragraph 7.2.21 IFRS 9 of continuing to apply the rules governing the accounting treatment of hedging transactions provided for in IAS 39.

The item reports the overall difference in respect of:

- the outcome of the measurement of fair value and cash flow hedges;
- the outcome of the measurement of the financial assets and liabilities covered by fair value hedges;
- the positive or negative differences and margins on hedge derivatives other than those reported under interest;
- the results of measuring on-balance-sheet assets and liabilities connected with a hedge of exchange rate risk.

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
A. Gain on:		
A.1 Fair value hedges	1,289	1,888
A.2 Hedged financial assets (fair value)	92,869	41,334
A.3 Hedged financial liabilities (fair value)	-	305
A.4 Cash flow hedges	585	2,115
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**94,743**	**45,642**
B. Loss on:		
B.1 Fair value hedges	(94,389)	(35,055)
B.2 Hedged financial assets (fair value)	(67)	(8,361)
B.3 Hedged financial liabilities (fair value)	(1,549)	(2,923)
B.4 Cash flow hedges	-	-
B.5 Assets and liabilities in foreign currencies	(411)	(2,118)
Total expense on hedging activities (B)	**(96,416)**	**(48,457)**
C. Net gain (loss) on hedging activities (A - B)	**(1,673)**	**(2,815)**
of which: net gain (loss) of hedges of net positions	-	-

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

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/6/2019			Total 30/6/2018		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	21,547	(766)	20,781	16,897	(1)	16,895
1.1 Due from banks	1	(1)	1	42	(1)	41
1.2 Loans to customers	21,546	(765)	20,781	16,855	-	16,855
2. Financial assets measured at fair value through other comprehensive income	3,446	(4,432)	(986)	14,269	(77,673)	(63,404)
2.1 Debt securities	3,446	(4,432)	(986)	14,269	(77,673)	(63,404)
2.2 Loans	-	-	-	-	-	-
Total assets	**24,993**	**(5,198)**	**19,795**	**31,165**	**(77,674)**	**(46,509)**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	780	(301)	479	247	(2,415)	(2,168)
Total liabilities	**780**	**(301)**	**479**	**247**	**(2,415)**	**(2,168)**

SECTION 7 - NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

This section reports the positive or negative balance between gains and losses on financial assets/liabilities measured at fair value for which the fair value option was exercised or because they are mandatorily measured at fair value under IFRS 9, including the outcome of the fair value measurement of such instruments.

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	**4,195**	**-**	**(77)**	**-**	**4,118**
1.1 Debt securities	4,195	-	(77)	-	4,118
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**(3,974)**	**-**	**(3,974)**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	(3,974)	-	(3,974)
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**4,195**	**-**	**(4,051)**	**-**	**144**

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	**5,893**	**9,670**	**(6,529)**	**-**	**9,034**
1.1 Debt securities	996	1,208	(44)	-	2,160
1.2 Equity securities	4,124	7,447	-	-	11,571
1.3 Units in collective investment undertakings	774	1,015	(6,484)	-	(4,694)
1.4 Loans	-	-	(2)	-	(2)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**5,893**	**9,670**	**(6,529)**	**-**	**9,034**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

This item reports the negative or positive balance of writedowns and writebacks in respect of the impairment of financial assets measured at amortized cost and those measured at fair value through other comprehensive income.

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	Stage 3	30/6/2019	30/6/2018
A. Due from banks	**(629)**	**-**	**-**	**453**	**-**	**(176)**	**503**
- loans	(629)	-	-	453	-	(176)	493
- debt securities	-	-	-	-	-	-	10
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(911)**	**-**	**(261)**	**2**	**767**	**(403)**	**(6,343)**
- loans	(131)	-	(261)	-	767	376	(1,915)
- debt securities	(780)	-	-	2	-	(778)	(4,429)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(1,540)**	**-**	**(261)**	**454**	**767**	**(578)**	**(5,840)**

Losses under “Stage 1 and 2” regard collective writedowns of performing loans.

Writedowns under “Stage 3 - Other”, regard specific writedowns of impaired past due positions and those classified as unlikely to pay or bad debts.

For more on the procedures for determining writedowns on assets measured at amortized cost, see Part A “Accounting Policies” of the notes to the financial statements.

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)			
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	Total 30/6/2019	Total 30/6/2018
A. Debt securities	(53)	-	-	1	-	(52)	(161)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: loans purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(53)**	**-**	**-**	**1**	**-**	**(52)**	**(161)**

Losses under “Stage 1 and 2” regard collective writedowns of performing exposures.

For more on the procedures for determining writedowns on assets measured at fair value through other comprehensive income, see Part A “Accounting Policies” of the notes to the financial statements.

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

This section reports "Personnel expenses" and "Other administrative expenses" in the period.

10.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
1) Employees	**(63,037)**	**(43,202)**
a) wages and salaries	(45,034)	(29,957)
b) social security contributions	(11,116)	(7,633)
c) termination benefits	(692)	(524)
d) pensions	-	-
e) allocation to employee termination benefit provision	(163)	(143)
f) allocation to provision for retirement and similar liabilities	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(3,063)	(2,044)
- defined contribution	(3,063)	(2,044)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(2,968)	(2,901)
2) Other personnel	**(74)**	**(117)**
3) Board of Directors and members of Board of Auditors	**(1,177)**	**(961)**
4) Retired personnel	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	**3,649**	**3,228**
6) Reimbursement of expenses for third-party employees seconded to the Company	**(1,130)**	**(1,207)**
Total	**(61,769)**	**(42,259)**

Personnel expenses increased from €42.3 million to €61.7 million, reflecting an increase in the workforce (from 900 to over 1,300 average FTE) following the reorganization involved with the formation of the ICBG.

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
Information technology	**(40,774)**	**(40,486)**
Property and movables	**(13,876)**	**(11,824)**
- rental and fees	(13,876)	(11,824)
- ordinary maintenance	-	-
- security	-	-
Goods and services	**(1,902)**	**(6,404)**
- telephone and data transmission	(587)	(3,722)
- postal	(128)	(1,599)
- asset transport and counting	(26)	(31)
- electricity, heating and water	(201)	(201)
- transportation and travel	(875)	(562)
- office supplies and printed materials	(67)	(288)
- subscriptions, magazines and newspapers	(18)	-
Professional services	**(13,641)**	**(13,220)**
- professional fees (other than audit fees)	(9,960)	(10,324)
- audit fees	(231)	(186)
- legal and notary costs	(668)	(541)
- court costs, information and title searches	(2)	(5)
- insurance	(310)	(282)
- administrative services	(2,470)	(1,882)
Promotional, advertising and entertainment expenses	**(2,121)**	**(3,612)**
Association dues	**(1,368)**	**(2,710)**
Donations	**-**	**-**
Other	**(1,161)**	**(4,777)**
Indirect taxes and duties	**(25,188)**	**(36,222)**
- stamp duty	(2,298)	(7,345)
- long-term loan tax - Pres. Decree 601/73	-	-
- municipal property tax	-	-
- financial transaction tax	(20)	(10)
- other indirect taxes and duties	(22,869)	(28,867)
Total	**(100,031)**	**(119,254)**

Other administrative expenses include the ordinary contribution for all 2019 to the National Resolution Fund (BRRD), amounting to €16.7 million, and a special contribution to that Fund, which called up an additional amount for 2017 in the amount of €6.1 million.

Administrative expenses include the costs associated with the establishment of the ICBG (€20 million).

Administrative expenses of €35.3 million attributable to the electronic money business were reclassified to “Profit (loss) on discontinued operations after tax” of the income statement.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

This section provides a breakdown of the composition of the balance between accruals and any reversals to the income statement of excess provisions in respect of:

- provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued within the scope of IFRS 9;
- provisions for other commitments to disburse funds and guarantees issued not within the scope of IFRS 9;
- other provisions.

11.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	Provisions	Reallocation of excesses	Total 30/6/2019
Commitments to disburse funds Stage 1	-	16	16
Commitments to disburse funds Stage 2	-	11	11
Commitments to disburse funds Stage 3	-	-	-
Financial guarantees issued Stage 1	-	-	-
Financial guarantees issued Stage 2	-	59	59
Financial guarantees issued Stage 3	-	-	-
Total	**-**	**86**	**86**

Provisions and reversals also include the effect of the passage of time (discounting effect).

For further details on the impairment model adopted by the Group 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

	Provisions	Reallocation of excesses	Total 30/6/2019
Legal disputes	(137)	149	12
Other	(396)	-	(396)
Total	**(533)**	**149**	**(384)**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT - ITEM 180

This section reports the balance of writedowns and writebacks of operating property and equipment and investment property, including assets acquired under finance leases and assets under operating.

12.1 NET ADJUSTMENTS OF PROPERTY AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property and equipment				
A.1 Operating assets	(2,678)	-	-	(2,678)
- owned	(2,269)	-	-	(2,269)
- right-of-use assets in respect of leases	(408)	-	-	(408)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**(2,678)**	**-**	**-**	**(2,678)**

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	(2,297)	-	-	(2,297)
- generated internally by the Bank	-	-	-	-
- other	(2,297)	-	-	(2,297)
A.2 Acquired under finance leases	-	-	-	-
Total	**(2,297)**	**-**	**-**	**(2,297)**

SECTION 14 – OTHER OPERATING EXPENSES – ITEM 200

This item reports expenses and income not allocable to other accounts that are including the calculation of item 280 “Profit (loss) on continuing operations after tax”.

14.1 OTHER OPERATING EXPENSES: COMPOSITION

		Total 30/6/2019	Total 30/6/2018
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		(1,156)	(824)
Settlement of disputes and claims		-	-
Amortization of expenditure for leasehold improvements		-	-
Other charges – extraordinary transactions		-	-
Robbery and theft		-	-
Other charges		-	-
	Total	**(1,156)**	**(824)**

14.2 OTHER OPERATING INCOME: COMPOSITION

		Total 30/6/2019	Total 30/6/2018
A) Recoveries		**24,346**	**10,718**
Recovery of taxes		45	5,996
Recovery for services to Group companies		24,301	4,722
Recovery of sundry charges		-	-
Insurance premiums		-	-
Property rental income		-	-
Recovery of costs from customers		-	-
Recovery of costs on bad debts		-	-
B) Other income		**2,256**	**4,392**
Insourcing revenues		-	-
Property rental income		-	-
Reductions in liabilities not attributable to separate line item		-	-
Prior-year income not attributable to separate line item		-	-
Other income from finance leases		-	-
Other income - extraordinary transactions		-	-
Other income		2,256	4,392
Fees and commissions on accelerated application processing		-	-
	Total	**26,602**	**15,110**

The increase in other operating income is mainly attributable to the new CLASSE 1 (€12.6 million) and CLASSE 2 (€4.6 million) services billed to the affiliated banks. Recoveries of taxes of €6 million attributable to the electronic money business were reclassified to “Profit (loss) on discontinued operations after tax”.

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2019	Total 30/06//2018
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**(2,322)**	**-**
1. Writedowns	-	-
2. Impairment losses	(2,322)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(2,322)**	**-**

The amount entirely regards the impairment recognized on the investment in Securfondo.

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS –ITEM 270

The item reports the tax liability – equal to the balance of current taxes and deferred taxes – in respect of income for the period, excluding the portion attributable to disposal groups and associated liabilities held for sale.

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
1. Current taxes (-)	3,119	4,753
2. Change in current taxes from previous period (+/-)	2	25
3. Reduction of current taxes for the period (+)	3,002	-
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	19	99
5. Change in deferred tax liabilities (+/-)	-	572
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**6,142**	**5,450**

SECTION 20 - PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS – ITEM 290

This item reports the balance of income and charges in respect of groups of assets and liabilities (disposal groups) held for sale, net of current and deferred taxation.

20.1 PROFIT (LOSS) AFTER TAXES FROM DISPOSAL GROUPS: COMPOSITION

	Total 30/6/2019	Total 30/6/2018
1. Income	182,241	-
2. Expense	(171,932)	-
3. Result of measurement of disposal groups and associated liabilities	-	-
4. Profit (loss) from realization	-	-
5. Taxes and duties	(3,002)	-
Profit (loss)	**7,308**	**-**

The figures reflect the balance of the income and expense generated by the electronic money business.

PART D

Comprehensive income

DETAILED BREAKDOWN OF COMPREHENSIVE INCOME

		30/6/2019	30/6/2018
10.	**Net profit (loss) for the period**	**16,130**	**(59,499)**
	Other comprehensive income not recyclable to profit or loss	**1,946**	**(6,469)**
20.	Equity securities designated as at fair value through other comprehensive income:	3,794	(6,639)
	a) fair value changes	3,794	(6,639)
	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 and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(818)	204
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	(1,030)	(34)
	Other comprehensive income recyclable to profit or loss	**5,257**	**(13,900)**
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:	591	342
	a) fair value changes	(1,048)	2,457
	b) reversal to income statement	1,639	(2,115)
	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:	7,279	(14,242)
	a) fair value changes	6,752	(6,166)
	b) reversal to income statement	527	(8,076)
	- adjustments for credit risk	(30)	(422)
	- gain/loss on realization	557	(7,654)
	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	(2,613)	2,285
190.	**Total other comprehensive income**	**7,203**	**(18,084)**
200.	**Comprehensive income (item 10+190)**	**23,333**	**(77,583)**

PART E
Risks 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 Mutual 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:
  - handling 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;
  - directing, 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.

- It monitors 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, performs 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 Iccrea 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 participating 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), 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 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 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 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 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 NPEs.

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 evaluation date, do not show a significant increase in credit risk with respect to the date of initial recognition;
- stage 2, which includes all performing exposures that, as at the evaluation date, show a significant increase in credit risk with respect to the date of initial recognition;
- 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 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 significant thresholds defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position. In residual cases where there is no origination PD/rating and only the reporting date PD/rating is available, the method provides for the use of the practical expedient of the low credit risk exemption;
- 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 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 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 that incorporate current and future macroeconomic conditions;
- 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 calculated by grouping exposures at a variable level of granularity (by technical form, counterparty type), considering, for each uniform cluster of exposures, the ratio of provisions associated with specific writedowns to the total gross non-performing exposure and applying a danger rate matrix (to quantify the probability of transition of non-performing positions from one status to another) in order to determine an LGD that is representative of all possible default states and their evolution. For the securities portfolio, the same LGD (45%) is used for exposures in stage 1 and stage 2.

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.

The Group conditions risk parameters for future macroeconomic scenarios using models that produce forecasts of developments in risk (PD) and losses engendered by counterparty default (LGD) over a specified time horizon and defined on the basis of specific target variables (default rates, amount of non-performing positions, etc.).

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 Iccrea 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

Iccrea Banca's strategies for managing impaired credit exposures are an integral part of the Iccrea Banca's overall long-term Strategic Plan. The objectives for managing NPEs 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 operational planning of the objectives to be achieved for the NPE portfolio also enables the Bank 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 efficient and sustainable management of impaired loans.

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 envisaged in the 2018-2020 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 NPEs.

In summary, the main actions 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 UNIMPAIRED CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.1 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (CARRYING AMOUNT)

	Bad debts	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other unimpaired positions	Total
1. Financial assets measured at amortized cost	119,491	1,305	3	127	37,871,476	37,992,402
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	316,318	316,318
3. Financial assets designated as at fair value	-	-	-	-	492,359	492,359
4. Other financial assets mandatorily measured at fair value	-	-	-	-	103,387	103,387
5. Financial assets held for sale	-	-	-	-	535	535
Total 30/6/2019	**119,491**	**1,305**	**3**	**127**	**38,784,075**	**38,905,001**
Total 31/12/2018	**127,512**	**1,415**	**22**	**218**	**36,592,003**	**36,721,171**

The impaired positions reported in the above table and the following tables of this section include assets assigned but not derecognized.

A.1.2 DISTRIBUTION OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

	Impaired				Unimpaired			
	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	159,247	38,448	120,799	1,866	37,879,996	8,393	37,871,603	37,992,402
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	316,697	379	316,318	316,318
3. Financial assets designated as at fair value	-	-	-	-	X	X	492,359	492,359
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	103,387	103,387
5. Financial assets held for sale	-	-	-	-	538	3	535	535
Total 30/6/2019	**159,247**	**38,448**	**120,799**	**1,866**	**38,197,231**	**8,775**	**38,784,202**	**38,905,001**
Total 31/12/2018	**168,560**	**39,610**	**128,950**	**-**	**36,481,241**	**7,886**	**36,592,221**	**36,721,171**

* Values to be reported for information purposes.

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	590,797
2. Hedging derivatives	-	-	6,336
Total 30/6/2019	**-**	**-**	**597,133**
Total 31/12/2018	**-**	**-**	**348,039**

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	Unimpaired			
A. ON-BALANCE-SHEET CREDIT EXPOSURES					
a) Bad debts	-	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) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	26,487,141	2,959	26,484,181	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**26,487,141**	**2,959**	**26,484,181**	**-**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	5,463,379	18	5,463,360	-
TOTAL B	**-**	**5,463,379**	**18**	**5,463,360**	**-**
TOTAL A+B	**-**	**31,950,519**	**2,978**	**31,947,542**	**-**

* 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

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs *
	Impaired	Unimpaired			
A. ON-BALANCE-SHEET CREDIT EXPOSURES					
a) Bad debts	157,761	X	38,270	119,491	1,866
- of which: forborne exposures	285	X	75	209	-
b) Unlikely to be repaid	1,483	X	178	1,305	-
- of which: forborne exposures	889	X	125	764	-
c) Impaired past due exposures	3	X	-	3	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	129	2	127	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired assets	X	12,342,403	5,813	12,336,590	-
- of which: forborne exposures	X	442	15	428	-
TOTAL A	**159,247**	**12,342,532**	**44,263**	**12,457,516**	**1,866**
B. OFF-BALANCE-SHEET EXPOSURES					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	1,866,101	3	1,866,098	-
TOTAL B	**-**	**1,866,101**	**3**	**1,866,098**	**-**
TOTAL A+B	**159,247**	**14,208,634**	**44,267**	**14,323,614**	**1,866**

* 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

Iccrea Banca, in its capacity as the Parent Company of the ICBG, 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.

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, Iccrea Banca 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)

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;
- 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 Bank.

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 as 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 contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

The Risk Management department is also responsible for preparing periodic reports on the various risk factors for the operating units, top management and the Board of Directors.

Risk management and mitigation

Risk management and mitigation activities are governed by a set of codified and formalized rules that envisage:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in risks;
- the adoption of measures to manage any irregularities;
- the actions to be taken in the event the risk objectives, tolerances or limits specified in the Risk Appetite Statement are breached;
- the actions to be taken in the event the limits specified in the risk policies are breached.

QUANTITATIVE DISCLOSURES

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

This table has not been completed since an analysis of interest rate 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

At June 28, 2019, with regard to the market risk on the trading book of the Parent Company, Iccrea Banca, the VaR was equal to €0.81 million, below the overall risk limit for those operations of €2 million for the head of Finance.

A sensitivity analysis is shown below of the main risk factors to which the trading book of the Iccrea Cooperative Banking Group is exposed:

Risk factor	Sensitivity value (€/millions)	Note
Interest Rates	94,683	Sensitivity calculated for a change of 1 basis point
Inflation Rates	-	
Credit spread	14.9	
Equity	7,066.5	Sensitivity calculated for a change of 1% in the stock/stock 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 Iccrea Banca, in its capacity as the Parent Company of the ICBG, 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, Risk management policies for interest rate risk on the banking book .

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 Bank 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 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 Bank operations.

The system provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income.

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 as 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.

In accordance with regulatory provisions, scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB have been developed in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, various types of mutually complementary analyses have been adopted:

- 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 Bank'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, 2019 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	-84	+84
Impact on net interest income	-34	+34

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 first half of 2019, 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 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 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

Iccrea Banca, in its capacity as the Parent Company of the ICBG, 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 under 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 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 Bank 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 Bank'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 liquidity position when endogenous and/or exogenous stress events occur.

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. The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, two maturity curves are developed: operational and structural.

The 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 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, both at short and 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 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 (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

Monitoring liquidity risk involves constant communication between the Risk Management function and the operating units. The Risk Management function is responsible for measuring and monitoring the current and prospective exposure to liquidity risk (profile). It verifies the position of indicators with respect to the specified limits (RAS and risk limits), and measures contingency indicators and additional metrics, i.e. measurement tools and techniques supplementing the liquidity risk monitoring tools for which no risk limits have been established, but rather alert thresholds and evaluation activities performed by the competent units.

Second-level controls 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 should the specified limits be exceeded. Control activities is based on the assessment and measurement of the risk profile with respect to the risk indicators established by the Risk Governance framework and are 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.

Within this area, a reporting process has been defined for reporting to corporate boards, top management and operational units, in accordance with the rules on corporate control reporting. The data and information used in the reporting support the effectiveness and efficiency of communication, using terminology and references that are understandable to the recipients to whom it is addressed.

Stress test framework

The liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

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 business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Bank 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 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, various types of mutually complementary analyses have been adopted:

- 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 Bank;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Bank. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Bank;
- 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 Bank to cope with any liquidity strains.

Shocks generated by the main risk variables have been incorporated for each scenario, identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

The stress scenarios do not take account of the effects of exchanges rates on currencies, as exchange rate risk is assumed to be negligible and/or essentially offset.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

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 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 Operational Risk Management Framework is described in the Operational Risk Management Framework policy document. 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 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 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 risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational risks, and the implementation of measures to ensure that possible operational risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): 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 risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

In the first half of 2019, the progressive implementation of the application system to support operational and IT risk management activities was begun and, with specific reference to the Loss Data Collection process, the parameterization phase of the system was undertaken with a view to its application with the direct subsidiaries of the Parent Company and the affiliated banks.

In addition, the first half of 2019 also saw a significant informational and training effort for the Operational Risk Management framework, directed at the risk management functions of the affiliated banks, with specific attention being paid to operating approaches and support applications.

The Operational Risk Management function of the Parent Company also supported the collection of operational loss events at the Group level for operational and management purposes as well as QIS and COREP regulatory reporting.

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.

During the first quarter of 2019, IT risk assessment activities were completed. They were instrumental to the updating of the overall IT risk profile of Iccrea Banca and to the preparation of the summary report on ICT risk.

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 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, 2018), amounted to €40,643 thousand.

PART F
Information on capital

SECTION 1 – COMPANY CAPITAL

A. QUALITATIVE DISCLOSURES

Shareholders' equity (share capital, share premium reserve, reserves, equity instruments, own shares, valuation reserves, redeemable shares, profit/loss for the period) represents the Bank's capital, i.e. the sum of financial resources used for achieving the corporate purpose and dealing with the risks of business. Therefore, equity represents the main safeguard against the risks of the banking business and, as such, the amount of capital must be sufficient to ensure an appropriate degree of independence in development and growth and guarantee the soundness and stability of the company on an ongoing basis.

B. QUANTITATIVE DISCLOSURES

B.1 COMPANY CAPITAL: COMPOSITION

	30/06/2019	31/12/2018
1. Share capital	1,401,045	1,151,045
2. Share premium reserve	6,081	6,081
3. Reserves	379,878	415,510
- earnings	377,876	413,508
a) legal	50,785	50,785
b) established in bylaws	205	205
c) treasury shares	4,608	4,608
d) other	322,278	357,910
- other	2,002	2,002
4. Equity instruments	-	-
5. (Treasury shares)	(4,608)	(4,608)
6. Valuation reserves:	45,559	38,356
- Equity securities designated as at fair value through other comprehensive income	(4,479)	(7,018)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	705	(4,157)
- Property and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(185)	(580)
- 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	(2,544)	(1,951)
- 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	16,130	(35,632)
Total	**1,844,085**	**1,570,752**

B.2 VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 30/06/2019		Total 31/12/2018	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	1,760	(1,055)		(4,157)
2. Equity securities		(4,479)		(7,018)
3. Loans				
TOTAL	**1,760**	**(5,534)**		**(11,175)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

2.1 OWN FUNDS

QUALITATIVE DISCLOSURES

Own funds, risk-weighted assets and solvency ratios have been calculated on the basis of the harmonized rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013, transposing the standards established by the Basel Committee on Banking Supervision ("Basel 3") within the European Union, and on the basis of Bank of Italy Circulars nos. 285 and 286 (issued in 2013) and the update to Circular no. 154.

IFRS 9 has been in force as from January 1, 2018. It establishes a new framework for calculating the provisions based on expected loss rather than on incurred loss. The Bank has elected to the option of applying the transitional adjustment for IFRS 9 referred to in Article 473a of the CRR. Accordingly, the calculation of own funds, capital requirements and ratios partially reflect (15% as provided for in the transitional provisions for the period from January 1, 2019 to December 31, 2019.) the impact of the application of the new standard.

At June 30, 2019, own funds amounted to €1,906 million, as against a total capital requirement of €390,389 million, mainly attributable to credit and counterparty risks, and to a lesser extent to operational and market risks.

1. COMMON EQUITY TIER 1 - CET1

Common Equity Tier 1 (CET1) capital is composed of positive elements (which increase its amount) and negative elements (which reduce it). Overall CET1, before the application of the prudential filters, amounts to €1,832,563 thousand. Applying prudential filters, represented by the positive change in the cash flow hedge reserve for financial instruments and the filter for supplementary adjustments to regulatory capital in the amount of €2,795 thousand, CET1 gross of elements to be deducted and the effects of the transitional system comes to €1,829,768 thousand. The elements to be deducted consist of intangible assets and deferred tax assets based on future profitability, net of deferred tax liabilities, and amount to -€59,534 thousand, while the positive impact of the transitional system on CET 1 comes to €5,532 thousand and is represented by the negative actuarial reserves (IAS 19) and the transitional adjustment for first time application of IFRS 9. Therefore, CET1 amounts to €1,776 million.

2. ADDITIONAL TIER 1 - AT1

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

3. TIER 2 – T2

Tier2 – T2 amounts to €130,562 thousand and is composed of three subordinated bonds issued by the Bank, net of the redeemable portion.

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

- issue date June 18, 2015, maturity date June 18, 2025, nominal value €106.600 million, annual interest rate 6M Euribor + 3.50% gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date June 29, 2015, maturity date June 29, 2025, nominal value €11.737 million, annual interest rate 3.50% fixed gross, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.
- issue date July 30, 2015, maturity date July 30, 2025, nominal value €16 million, annual interest rate 6M Euribor +350BP, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

QUANTITATIVE DISCOSURES

	Total 30/06/2019	Total 31/12/2018
A. Common Equity Tier1 (CET1) capital before the application of prudential filters	**1,832,563**	**1,610,992**
of which CET1 instruments subject to the transitional provisions	-	-
B. CET1 prudential filters (+/-)	**(2,795)**	**(835)**
C. CET1 gross of elements to be deducted and the effects of the transitional system (A +/- B)	**1,829,768**	**1,610,157**
D. Elements to be deducted from CET1	**(59,534)**	**(100,318)**
E. Transitional system - Impact on CET1 (+/-)	**5,532**	**6,474**
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**1,775,766**	**1,516,313**
G. Additional Tier 1 (AT1) capital gross of elements to be deducted and the effects of the transitional system	-	-
of which AT1 instruments subject to the transitional provisions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional system - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	-	-
M. Tier 2 (T2) capital gross of elements to be deducted and the effects of the transitional system	**134,600**	**134,600**
of which Tier 2 instruments subject to the transitional provisions	-	-
N. Elements to be deducted from T2	**(4,038)**	**(4,038)**
O. Transitional system - Impact on T2 (+/-)	**-**	**-**
P. Total Tier 2 (T2) capital (M - N +/- O)	**130,562**	**130,562**
Q. Total own funds (F + L + P)	**1,906,328**	**1,646,875**

2.2 CAPITAL ADEQUACY

QUALITATIVE DISCLOSURES

The capital ratios at June 30, 2019, were determined in accordance with the provisions of the Basel 3 Capital Accord, adopting the Standardized Approach for the calculation of capital requirements for credit and counterparty risk and the Basic Indicator Approach for operational risk. With regard to the reporting at December 31, 2014, the capital requirement for operational risk, for banks that apply the Basic Indicator Approach (BIA), is equal to 15% of the average of the last three observations of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013.

QUANTITATIVE DISCLOSURES

	Unweighted amounts	Weighted amounts/requirements	Unweighted amounts	Weighted amounts/requirements
	Total 30/6/2019		Total 31/12/2018	
A. EXPOSURES				
A.1 CREDIT AND COUNTERPARTY RISK	**59,672,275**	**3,829,256**	**58,143,876**	**3,567,988**
1. Standardized approach	59,637,478	3,794,459	58,138,162	3,562,274
2. IRB approach				
2.1 Foundation				
2.2 Advanced				
3. Securitizations	34,797	34,797	5,714	5,714
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK		**306,340**		**285,439**
B.2 RISK OF ADJUSTMENT OF CREDIT RATING		**19,478**		**14,558**
B.3 SETTLEMENT RISK				
B.4 MARKET RISKS		**23,928**		**18,506**
1. Standardized method		23,928		18,506
2. Internal models				
3. Concentration risk				
B.5 OPERATIONAL RISK		**40,643**		**40,643**
1. Basic indicator approach		40,643		40,643
2. Standardized approach				
3. Advanced measurement approach				
B.6 OTHER COMPONENTS				
B.7 TOTAL PRUDENTIAL REQUIREMENTS		**390,389**		**359,146**
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 RISK-WEIGHTED ASSETS		**4,879,869**		**4,489,326**
C.2 CET1 CAPITAL RATIO		**36.39%**		**33.78%**
C.3 TIER1 CAPITAL RATIO		**36.39%**		**33.78%**
C.4 TOTAL CAPITAL RATIO		**39.07%**		**36.68%**

PART G
Business combinations

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

PART H
Transactions with related parties

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneraton paid in the first half of 2019 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 30/6/2019				
	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	5,401	34	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

The following tables report the balance sheet and income statement items involved in transactions with the companies consolidated on a line-by-line basis.

ASSETS	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS MEASURED AT FV THROUGH OCI	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO BNAKS	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO CUSTOMERS	NON-CURRENT ASSTES AND DISPOSAL GROUPS HELD FOR SALE	OTHER ASSETS
B.C.C. DEL GARDA	4,286	-	274,865	-	18	752
BANCA ALPI MARITTIME	10,931	-	2,812	-	15	535
BANCA ANNIA	1	-	159,019	-	-	288
BANCA CENTROPADANA	1,054	-	371,580	-	22	359
BANCA CRAS	-	-	469,397	-	16	227
BANCA CREMASCA	-	-	131,149	-	74	283
BANCA DEI SIBILLINI	-	-	43,309	-	4	69
BANCA DEL CATANZARESE	-	-	21,480	-	13	61
BANCA DEL CILENTO	-	-	131,998	-	16	36
BANCA DEL PICENO CREDITO COOPERATIVO SOCIETÀ COOPERATIVA	237	-	219,868	-	13	314
BANCA DEL VALDARNO	76	-	162,043	-	8	489
BANCA DELL ELBA CREDITO COOP	-	-	21,946	-	7	39
BANCA DELLA MARCA	97	-	10,715	-	106	399
BANCA DELLA VALSASSINA	-	-	21,826	-	7	25
BANCA DI ANDRIA	-	-	176	-	11	39
BANCA DI ANGHIARI E STIA	-	-	130,319	-	10	31
BANCA DI CASCIA	-	-	28,197	-	5	42
BANCA DI CREDITO COOPERATIVO BERGAMASCA E OROBICA - SOCIETA' C	10,874	-	47,298	-	12	252
BANCA DI CREDITO COOPERATIVO DI MONTEPAONE SOCIETA' COOPERATIVA	-	-	19,126	-	5	40
BANCA DI CREDITO COOPERATIVO DI SCAFATI E CETARA S.C.	-	-	101,080	-	6	20
BANCA DI FILOTTRANO	3,173	-	224,286	-	11	274
BANCA DI FORMELLO E T.R.	-	-	39,890	-	16	73
BANCA DI MONASTIER E DEL SILE	2,421	-	69,549	-	58	210
BANCA DI PESARO	1,716	-	125,563	-	6	34
BANCA DI PESCIA E CASCINA	-	-	124,923	-	11	131
BANCA DI PISA E FORNACETTE	-	-	1,902	-	-	54
BANCA DI RIPATRANSONE	-	-	93,157	-	7	47
BANCA DI TARANTO	-	-	12,634	-	7	43
BANCA DI UDINE	703	-	57,721	- -	3	114
BANCA DI VERONA - CADIDAVID	-	-	125,168	-	6	118
BANCA DON RIZZO	-	-	92,706	-	2	134
BANCA MEDIOCREDITO DEL FRIULI VENEZIA GIULIA SPA	-	-	351	-	-	243
BANCA PATAVINA	1,167	-	145,499	-	24	329
BANCA SAN FRANCESCO	-	-	48,393	-	7	77
BANCA SAN GIORGIO QUINTO	954	-	306,269	-	-	235
BANCA SVILUPPO SPA	9	-	50,666	-	92	414
BANCA TEMA - TERRE ETRUSCHE E DI MAREMMA	-	-	227,697	-	17	238
BANCA VALDICHIANA	-	-	173,354	-	14	288
BANCA VERONESE	265	-	80,510	-	10	170
BANCA VERSILIA	-	-	175,814	-	12	240
BANCO FIORENTINO	-	-	342,615	-	23	60
BCC ABRUZZESE CAPPELLE SUL TAVO	-	-	128,208	-	5	101
BCC AGRIGENTINO	-	-	9,918	-	6	55
BCC AGROBRESCIANO	81	5,619	177,010	-	-	219
BCC BASILICATA	-	-	54,043	-	4	83

ASSETS	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS MEASURED AT FV THROUGH OCI	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO BNAKS	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO CUSTOMERS	NON-CURRENT ASSTES AND DISPOSAL GROUPS HELD FOR SALE	OTHER ASSETS
BCC BENI IMMOBILI	-	-	-	7,870	-	41
BCC BERGAMO E VALLI	1,257	-	70,302	-	10	153
BCC CREDITOCONSUMO	-	-	-	1,183,137	-	4,763
BCC DEGLI ULIVI	-	-	9,720	-	4	62
BCC DEI COLLI ALBANI	-	-	95,778	-	48	115
BCC DEI COMUNI CILENTANI	-	-	70,892	-	30	121
BCC DEL BASSO SEBINO	130	-	62,412	-	6	102
BCC DEL METAURO	2,852	-	166,726	-	7	58
BCC DELL ADRIATICO TERAMANO	-	-	31,574	-	10	54
BCC DELL ALTA BRIANZA	145	-	96,168	-	16	228
BCC DELL OGLIO E DEL SERIO	62	-	126,965	-	12	238
BCC DELLA VALLE DEL FITALIA	-	-	11,826	-	3	16
BCC DELLA VALLE DEL TRIGNO	-	-	23,331	-	6	54
BCC DI ALBA	14,571	-	504,352	-	56	674
BCC DI ALTOFONTE E CACCAMO	-	-	30,061	-	15	14
BCC DI ARBOREA	-	-	90,462	-	5	88
BCC DI AVETRANA	-	-	7,559	-	3	240
BCC DI BARI	-	-	24,710	-	8	51
BCC DI BASCIANO	-	-	15,789	-	4	37
BCC DI BATTIPAGLIA	-	-	447,589	-	19	189
BCC DI BELLEGRA	-	-	38,596	-	6	62
BCC DI BINASCO	5,858	-	159,260	-	17	208
BCC DI BORGHETTO LODIGIANO	-	-	49,107	-	7	91
BCC DI BRENDOLA	3,158	-	37,540	-	19	97
BCC DI BUONABITACOLO	-	-	25,666	-	5	55
BCC DI BUSTO GAROLFO	262	-	168,779	-	13	209
BCC DI CAGLIARI	-	-	41,885	-	13	69
BCC DI CANOSA - LOCONIA	-	-	61,802	-	5	21
BCC DI CANTU'	-	-	53,807	-	21	425
BCC DI CAPACCIO PAESTUM	-	-	102,053	-	5	114
BCC DI CARATE BRIANZA	939	-	2,811	-	23	438
BCC DI CARAVAGGIO	2	-	233,637	-	30	285
BCC DI CASTELLANA GROTTE	-	-	116,141	-	9	40
BCC DI CASTIGLIONE MESSER R.	-	-	213,097	-	11	155
BCC DI CESENA E GATTEO	4,711	-	183,897	-	43	230
BCC DI CITTANOVA	-	-	50,674	-	7	70
BCC DI ERCHIE	-	-	487	-	4	36
BCC DI FANO	1,203	-	140,771	-	10	204
BCC DI GAMBATESA	-	-	21,788	-	4	39
BCC DI GAUDIANO DI LAVELLO	-	-	23,360	-	4	50
BCC DI GRADARA	-	-	-	-	-	-
BCC DI LEVERANO	-	-	72,339	-	6	27
BCC DI LEZZENO	-	-	131,861	-	30	118
BCC DI MARINA DI GINOSA	-	-	544	-	4	39
BCC DI MASSAFRA	-	-	5,011	-	6	38
BCC DI MOZZANICA	-	-	289	-	3	28
BCC DI NAPOLI	-	-	545	-	3	47
BCC DI NETTUNO	1,277	-	35,404	-	6	55
BCC DI OPPIDO LUCANO	-	-	27,596	-	3	26
BCC DI OSTRA E MORRO D ALBA	-	-	90,881	-	5	100
BCC DI OSTRA VETERE	-	-	18,436	-	4	74
BCC DI OSTUNI	-	-	10,491	-	-	27

ASSETS	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS MEASURED AT FV THROUGH OCI	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO BNAKS	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO CUSTOMERS	NON-CURRENT ASSTES AND DISPOSAL GROUPS HELD FOR SALE	OTHER ASSETS
BCC DI PACHINO -	-	-	147,650	-	8	50
BCC DI PALIANO	246	-	49,873	-	6	191
BCC DI PERGOLA	-	-	222,785	-	7	179
BCC DI PONTASSIEVE	958	-	76,466	-	9	85
BCC DI PRATOLA PELIGNA	-	-	269,365	-	7	126
BCC DI PUTIGNANO -	-	-	4,136	-	3	16
BCC DI RECANATI E COLMURANO	218	-	128,084	-	7	61
BCC DI RIANO	-	-	23,547	-	8	60
BCC DI RIVAROLO MANTOVANO	-	-	23,110	-	6	36
BCC DI ROMA	83,046	-	42,569	-	129	848
BCC DI SAN BIAGIO PLATANI	-	-	37,379	-	4	65
BCC DI SAN MARCO DEI CAVOTI	-	-	30,195	-	5	65
BCC DI SANTERAMO IN COLLE	273	-	75,507	-	-	111
BCC DI SERINO	-	-	-	-	-	-
BCC DI SPINAZZOLA	-	-	33,734	-	4	55
BCC DI STARANZANO E VILLESSE	-	-	70,535	-	12	140
BCC DI TERRA DOTRANTO	-	-	56,985	-	6	69
BCC DI TREVIGLIO	1	-	397,869	-	25	367
BCC DI TRIUGGIO	-	-	137,850	-	21	135
BCC DI VALLEDOLMO	-	-	78	-	3	24
BCC DI VIGNOLE	-	-	191,076	-	22	77
BCC DON STELLA DI RESUTTANO	-	-	25,279	-	3	20
BCC FACTORING	-	-	-	342,289	-	119
BCC FALCONARA MARITTIMA	-	-	76,763	-	9	113
BCC G. TONIOLO DI SAN CATALDO	-	-	516,286	-	11	243
BCC GESTIONE CREDITI	-	-	-	115	-	1,769
BCC LEASE	-	-	-	421,177	-	80
BCC MEDIOCRATI	-	-	84,753	-	33	127
BCC MILANO	278	-	593,164	-	37	509
BCC MUTUO SOCCORSO GANGI	-	-	20,312	-	4	49
BCC PORDENONESE	4,247	-	142,775	-	1	57
BCC RAVENNATE E IMOLESE	20,650	-	427,833	-	38	635
BCC RISPARMIO E PREVIDENZA	-	-	-	-	-	4,021
BCC S. MICHELE DI CALTANISSETTA	-	-	73,609	-	12	83
BCC SAN GIUSEPPE DI MUSSOMELI	-	-	35,188	-	3	38
BCC SAN GIUSEPPE DI PETRALIA S.	14	-	73,970	-	6	109
BCC SERVIZI INFORMATICI	-	-	-	-	-	1,230
BCC SOLUTIONS	-	-	-	42,090	-	3,248
BCC TERRA DI LAVORO	-	-	34,424	-	8	83
BCC UMBRIA	1,099	-	312,433	-	60	219
BCC VALLE DEL TORTO	-	-	37,489	-	4	44
BCC VICENTINO	-	-	95,737	-	10	155
BCC DELL AGRO PONTINO	-	-	99,305	-	11	128
CENTROMARCA BANCA	4	13,158	126,001	-	39	94
CEREABANCA 1897	-	-	28,481	-	18	88
CHIANTI BANCA	4	8,377	275,354	-	9	447
COOPERSYSTEM SOC. COOP.	-	-	-	-	-	-
CREDIFRIULI	3,360	-	73,155	-	39	213
CREDITO COOPERATIVO DI SAN CALOGERO E MAIERATO-BCC DEL VIBONESE	834	-	45,499	-	7	311
CREDITO PADANO	21,849	-	343,345	-	19	359
CREDITO TREVIGIANO-BANCA DI CREDITO COOPERATIVO-SOCIETA'	-	-	94,643	-	14	39

ASSETS	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS MEASURED AT FV THROUGH OCI	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO BNAKS	FINANCIAL ASSETS MEASURED AT AMORTIZED COST: LOANS TO CUSTOMERS	NON-CURRENT ASSTES AND DISPOSAL GROUPS HELD FOR SALE	OTHER ASSETS
EMIL BANCA - CREDITO COOPERATIVO - SOCIETA' COOPERATIVA	4,735	-	430,008	-	172	654
ICCREA BANCAIMPRESA SPA	54,491	-	6,460,706	-	-	13,964
LA BCC DEL CROTONESE - CREDITO COOPERATIVO	-	-	46,887	-	7	16
RIMINIBANCA	526	-	458,453	-	23 -	135
SIGEST SRL	-	-	-	-	-	-
SINERGIA SOCIETA' CONSORTILE A RESPONSAB LIMITATA	-	-	-	-	-	1
VALPOLICELLA BENACO BANCA CREDITO COOPERATIVO VERONA	-	-	83,689	-	3	118
ViVal Banca -Banca di Credito Cooperativo di Montecatini Terme, Bientina e S. Pietro in Vincio s.c.	31	-	108,152	-	20	207

LIABILITIES	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO BANKS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO CUSTOMERS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: SECURITIES ISSUED	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES DESIGNATED AS AT FV	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	OTHER LIABILITIES
B.C.C. DEL GARDA	76,361		2,900	36	5,093	31	8
BANCA ALPI MARITTIME	123,137		25,972	1	9,581	22	25
BANCA ANNIA	39,318			143	5,612	8	21
BANCA CENTROPADANA	45,394		15,101	25	8,893	31	24
BANCA CRAS	74,836			384	3,863	44	5
BANCA CREMASCA	39,787		10,363		6,002	20	22
BANCA DEI SIBILLINI	8,274		4,024		456	2	3
BANCA DEL CATANZARESE	11,324				630	4	3
BANCA DEL CILENTO	9,870		797		2,851	10	8
BANCA DEL PICENO CREDITO COOPERATIVO SOCIETÀ COOPERATIVA	92,290		39,465		4,483	15	10
BANCA DEL VALDARNO	43,810		600	23	1,837	24	15
BANCA DELL ELBA CREDITO COOP	4,617		1,744		368	2	4
BANCA DELLA MARCA	118,240		1,397		9,189	66	41
BANCA DELLA VALSASSINA	21,965		33,214		890	5	12
BANCA DI ANDRIA	2,990		398		202	1	1
BANCA DI ANGHIARI E STIA	19,975		506		2,315	9	6
BANCA DI CASCIA	17,583		821	64	683	2	5
BANCA DI CREDITO COOPERATIVO BERGAMASCA E OROBICA - SOCIETA' C	38,945		10,504		5,229	14	13
BANCA DI CREDITO COOPERATIVO DI MONTEPAONE SOCIETA' COOPERATIVA	14,351		948		283	2	3
BANCA DI CREDITO COOPERATIVO DI SCAFATI E CETARA S.C.	13,864		4,984		858	8	2
BANCA DI FILOTTRANO	130,295		3,712		3,549	9	17
BANCA DI FORMELLO E T.R.	20,592		1,357		1,135	11	2
BANCA DI MONASTIER E DEL SILE	50,934		3,620	5	4,266	10	13
BANCA DI PESARO	52,349		14,822	-	1,702	13	8
BANCA DI PESCIA E CASCINA	37,118		9,790	31	2,326	17	12
BANCA DI PISA E FORNACETTE	41,655				6,745		20
BANCA DI RIPATRANSONE	30,650		5,616		1,303	5	13
BANCA DI TARANTO	7,500		2,512		268	1	66
BANCA DI UDINE	40,018		17,667		1,900	6	9

LIABILITIES	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO BANKS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO CUSTOMERS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: SECURITIES ISSUED	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES DESIGNATED AS AT FV	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	OTHER LIABILITIES
BANCA DI VERONA - CADIDAVID	47,367		26,363		2,320	4	14
BANCA DON RIZZO	29,022		30,127		1,905	11	2
BANCA MEDIOCREDITO DEL FRIULI VENEZIA GIULIA SPA	85,770						39
BANCA PATAVINA	101,919		1,598	767	7,050	15	663
BANCA SAN FRANCESCO	44,301		998		1,006	2	6
BANCA SAN GIORGIO QUINTO	66,193		6,429		5,443	7	32
BANCA SVILUPPO SPA	437,051		100,085	114		23	710
BANCA TEMA - TERRE ETRUSCHE E DI MAREMMA	46,825		7,854		5,203	15	14
BANCA VALDICHIANA	90,881		14,174	-	2,212	13	11
BANCA VERONESE	23,046		20,197	83	2,576	15	12
BANCA VERSILIA	78,832		9,301		4,105	23	23
BANCO FIORENTINO	62,427		37,085	51	5,844	27	35
BCC ABRUZZESE CAPPELLE SUL TAVO	10,445		9,247		1,404	4	9
BCC AGRIGENTINO	4,192		597		265	1	2
BCC AGROBRESCIANO	23,922			-	3,317	20	10
BCC BASILICATA	20,910		2,246		816	6	8
BCC BENI IMMOBILI							
BCC BERGAMO E VALLI	34,392					10	9
BCC CREDITOCONSUMO		269,654					186
BCC DEGLI ULIVI	10,659				556	2	3
BCC DEI COLLI ALBANI	25,851		13,899		1,978	8	3
BCC DEI COMUNI CILENTANI	86,835		498		1,834	8	8
BCC DEL BASSO SEBINO	12,643		40,126	123	1,113	4	8
BCC DEL METAURO	28,557		13,575	-	1,989	7	15
BCC DELL ADRIATICO TERAMANO	9,444		1,607		515	3	-
BCC DELL ALTA BRIANZA	60,945		4,582		4,218	25	12
BCC DELL OGLIO E DEL SERIO	92,937		5,997	7	4,803	16	33
BCC DELLA VALLE DEL FITALIA	4,551		2,316		269	2	3
BCC DELLA VALLE DEL TRIGNO	14,169		13,939		533	2	1
BCC DI ALBA	90,666		74,628	-	15,303	80	114
BCC DI ALTOFONTE E CACCAMO	10,917		997		249	-	3
BCC DI ARBOREA	32,717		400		1,145	2	7
BCC DI AVETRANA	8,927		1,990	3	434	1	5
BCC DI BARI	8,539		3,804		412	1	3
BCC DI BASCIANO	16,407				451	2	2
BCC DI BATTIPAGLIA	152,625		27,577		2,946	7	30
BCC DI BELLEGRA	5,260		3,418		622	3	3
BCC DI BINASCO	28,961				5,155	14	17
BCC DI BORGHETTO LODIGIANO	20,059				996	14	6
BCC DI BRENDOLA	96,607		23,136		5,965	28	29
BCC DI BUONABITACOLO	9,987				542	1	-
BCC DI BUSTO GAROLFO	29,419		10,747	1,310	4,328	28	25
BCC DI CAGLIARI	25,663		649		767	2	2
BCC DI CANOSA - LOCONIA	4,038				759	1	1
BCC DI CANTU'	102,251		5,563		10,067	22	53
BCC DI CAPACCIO PAESTUM	57,293		9,941		1,191	3	7
BCC DI CARATE BRIANZA	68,711		65,812		11,427	19	67
BCC DI CARAVAGGIO	79,693		30,260		5,887	47	32
BCC DI CASTELLANA GROTTE	27,985		2,908	5	1,977	5	10
BCC DI CASTIGLIONE MESSER R.	49,487		4,734		2,609	14	16

LIABILITIES	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO BANKS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO CUSTOMERS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: SECURITIES ISSUED	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES DESIGNATED AS AT FV	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	OTHER LIABILITIES
BCC DI CESENA E GATTEO	82,115		3,217	9	3,832	7	15
BCC DI CITTANOVA	48,662		3,708		737	2	8
BCC DI ERCHIE	5,414		2,792		369	2	2
BCC DI FANO	35,618		19,079	988	3,639	21	17
BCC DI GAMBATESA	4,004		2,814		493	1	4
BCC DI GAUDIANO DI LAVELLO	4,810		303		313	1	1
BCC DI GRADARA							-
BCC DI LEVERANO	27,883		3,912		1,048	2	6
BCC DI LEZZENO	61,434		17,815		2,068	26	15
BCC DI MARINA DI GINOSA	9,244		996		413	2	2
BCC DI MASSAFRA	2,950		702		216	1	1
BCC DI MOZZANICA	4,660		3,215		227	3	4
BCC DI NAPOLI	12,618				277	2	2
BCC DI NETTUNO	15,861		649		690	4	5
BCC DI OPPIDO LUCANO	6,490		1,600		389	-	3
BCC DI OSTRA E MORRO D ALBA	22,983		3,053		1,122	5	5
BCC DI OSTRA VETERE	13,456		3,757		764	4	5
BCC DI OSTUNI	14,289		2,193	-	444		3
BCC DI PACHINO -	36,205		10,828		1,560	11	9
BCC DI PALIANO	11,479		3,101	9	538	4	8
BCC DI PERGOLA	66,897		6,798		2,477	28	6
BCC DI PONTASSIEVE	14,077		4,030	-	1,648	7	7
BCC DI PRATOLA PELIGNA	40,888		26,691	4	1,366	5	11
BCC DI PUTIGNANO -	5,672				187	-	2
BCC DI RECANATI E COLMURANO	24,258		1,760		2,125	5	3
BCC DI RIANO	8,238		1,593		590	4	5
BCC DI RIVAROLO MANTOVANO	14,694		549		1,150	5	8
BCC DI ROMA	201,779		25,130	13	34,426	147	107
BCC DI SAN BIAGIO PLATANI	17,938		3,020		408	3	4
BCC DI SAN MARCO DEI CAVOTI	18,421		4,547		805	5	8
BCC DI SANTERAMO IN COLLE	63,325		8,152		1,497	1	10
BCC DI SERINO					-		-
BCC DI SPINAZZOLA	8,866				469	1	2
BCC DI STARANZANO E VILLESSE	18,291		6,220		2,541	22	15
BCC DI TERRA DOTRANTO	9,733		4,465		698	2	2
BCC DI TREVIGLIO	44,564			13	6,811	17	9
BCC DI TRIUGGIO	63,120		997	102	1,519	12	14
BCC DI VALLEDOLMO	3,927		405		92	-	1
BCC DI VIGNOLE	77,154		14,850	2	4,208	26	27
BCC DON STELLA DI RESUTTANO	19,747		1,353		156	-	3
BCC FACTORING		165					858
BCC FALCONARA MARITTIMA	28,036		1,560		831	8	3
BCC G. TONIOLO DI SAN CATALDO	66,196		38,942	-	3,332	6	20
BCC GESTIONE CREDITI		5,338					85
BCC LEASE							2,946
BCC MEDIOCRATI	50,772				1,860	6	9
BCC MILANO	87,563		16,924	1	12,069	86	18
BCC MUTUO SOCCORSO GANGI	12,119		6,985		318	1	2
BCC PORDENONESE	128,072		17,487		5,423	26	16
BCC RAVENNATE E IMOLESE	166,921		9,491	99	15,115	65	72
BCC RISPARMIO E PREVIDENZA		17,668					88

LIABILITIES	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO BANKS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: DUE TO CUSTOMERS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST: SECURITIES ISSUED	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES DESIGNATED AS AT FV	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	OTHER LIABILITIES
BCC S. MICHELE DI CALTANISSETTA	68,873				1,048	2	9
BCC SAN GIUSEPPE DI MUSSOMELI	23,085				221	-	4
BCC SAN GIUSEPPE DI PETRALIA S.	9,661		26,463		501	2	4
BCC SERVIZI INFORMATICI		626					3,941
BCC SOLUTIONS		263					311
BCC TERRA DI LAVORO	26,937		709		1,053	6	9
BCC UMBRIA	69,078		10,143		3,642	16	19
BCC VALLE DEL TORTO	11,964		10,412		428	1	5
BCC VICENTINO	27,075			-	2,257	15	12
BCCDELL AGRO PONTINO	50,171		4,567		1,992	7	12
CENTROMARCA BANCA	107,587		6,284	-	6,389	79	19
CEREABANCA 1897	9,142				1,056	15	17
CHIANTI BANCA	95,939			4	12,158	17	6
COOPERSYSTEM SOC. COOP.		34					
CREDIFRIULI	35,409		21,080	1,091	4,107	14	21
CREDITO COOPERATIVO DI SAN CALOGERO E MAIERATO-BCC DEL VIBONESE	24,656		5,006	53	834	3	5
CREDITO PADANO	74,223		8,054	9	5,134	23	22
CREDITO TREVIGIANO-BANCA DI CREDITO COOPERATIVO-SOCIETA'	167,420		2,102		4,109	5	9
EMIL BANCA - CREDITO COOPERATIVO - SOCIETA' COOPERATIVA	83,219		44,716	5	14,795	62	87
ICCREA BANCAIMPRESA SPA	26,991			1,112			21,842
LA BCC DEL CROTONESE - CREDITO COOPERATIVO	13,845		4,992		622	3	3
RIMINIBANCA	199,224		97,436		8,595	51	42
SIGEST SRL							
SINERGIA SOCIETA' CONSORTILE A RESPONSAB LIMITATA		151					1,220
VALPOLICELLA BENACO BANCA CREDITO COOPERATIVO VERONA	6,657		900		2,107	15	8
VIVAL BANCA -BANCA DI CREDITO COOPERATIVO DI MONTECATINI TERME, BIENTINA E S. PIETRO IN VINCIO S.C.	32,382			323	4,220	22	11

INCOME STATEMENT	INTEREST AND SIMILAR INCOME	INTEREST AND SIMILAR EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	NET GAIN (LOSS) ON TRADING ACTIVITIES	NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FVTPL	PERSONNEL EXPENSES	OTHER ADMINISTRATIVE EXPENSES	OTHER OPERATING EXPENSES/INCOME	PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX
B.C.C. DEL GARDA	352	(886)	272	(10)	3,043	(48)		(2)	253	(227)
BANCA ALPI MARITTIME	23	(439)	433	(20)	5,682	(90)	8	(3)	531	(85)
BANCA ANNIA	16	(367)	167	(19)	(6)	(53)		(4)	245	(94)
BANCA CENTROPADANA	56	(996)	439	(37)	1,040	(83)			292	(392)
BANCA CRAS	791	(649)	229	(9)	(38)	(36)	4	(1)	212	(343)
BANCA CREMASCA	362	(265)	248	(22)				(2)	305	(244)
BANCA DEI SIBILLINI	5	(123)	48	(3)		(4)			54	(19)
BANCA DEL CATANZARESE	8	(48)	74	(7)					45	(82)
BANCA DEL CILENTO	7	(328)	196	(15)		(27)			109	(299)

INCOME STATEMENT	INTEREST AND SIMILAR INCOME	INTEREST AND SIMILAR EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	NET GAIN (LOSS) ON TRADING ACTIVITIES	NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FVTPL	PERSONNEL EXPENSES	OTHER ADMINISTRATIVE EXPENSES	OTHER OPERATING EXPENSES/INCOME	PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX
BANCA DEL PICENO CREDITO COOPERATIVO SOCIETÀ COOPERATIVA	31	(732)	257	(19)	207	(42)		(3)	262	(150)
BANCA DEL VALDARNO	20	(291)	165	(15)	49	(17)		(1)	105	(134)
BANCA DELL ELBA CREDITO COOP	2	(57)	55	(5)				(1)	35	(71)
BANCA DELLA MARCA	66	(345)	452	(39)	11			(2)	310	(498)
BANCA DELLA VALSASSINA	16	(482)	103	(9)		(8)			75	(110)
BANCA DI ANDRIA	2	(1)	49	(1)					29	(14)
BANCA DI ANGHIARI E STIA	27	(204)	124	(7)		(22)		(2)	113	(201)
BANCA DI CASCIA	7	(78)	60	(3)	(3)	(6)		(1)	38	(52)
BANCA DI CREDITO COOPERATIVO BERGAMASCA E OROBICA - SOCIETA' C	19	(144)	248	(17)	4,452	(49)		(1)	222	(239)
BANCA DI CREDITO COOPERATIVO DI MONTEPAONE SOCIETA' COOPERATIVA	10	(53)	55	(4)		(3)			30	(73)
BANCA DI CREDITO COOPERATIVO DI SCAFATI E CETARA S.C.	24	(118)	89	(4)		(8)			60	(105)
BANCA DI FILOTTRANO	299	(687)	194	(17)	2,262	(33)		(1)	236	(58)
BANCA DI FORMELLO E T.R.	11	(74)	89	(4)		(11)			60	(181)
BANCA DI MONASTIER E DEL SILE	164	(286)	224	(7)	494			(4)	177	(181)
BANCA DI PESARO	13	(405)	139	(8)	1,332	(16)			109	(82)
BANCA DI PESCIA E CASCINA	6	(401)	187	(12)	(4)	(22)		(1)	112	(223)
BANCA DI PISA E FORNACETTE	1	(392)	4			(63)	2	(2)	240	
BANCA DI RIPATRANSONE	14	(258)	87	(6)		(12)		(1)	90	(91)
BANCA DI TARANTO	5	(51)	66	(3)			(14)	(30)	15	(23)
BANCA DI UDINE	8	(286)	148	(8)	124	(18)			105	(144)
BANCA DI VERONA - CADIDAVID	23	(422)	125	(12)	(1)	(22)		(2)	121	(12)
BANCA DON RIZZO	14	(375)	210	(18)		(18)			109	(194)
BANCA MEDIOCREDITO DEL FRIULI VENEZIA GIULIA SPA	14	(133)	40				124		92	
BANCA PATAVINA	256	(319)	354	(25)	692	(66)		(3)	271	(410)
BANCA SAN FRANCESCO	12	(90)	84	(7)		(9)			77	(78)
BANCA SAN GIORGIO QUINTO	75	(644)	417	(28)	511	(51)			208	(284)
BANCA SVILUPPO SPA	298	(4,445)	296	(23)	(4)		203		177	(201)
BANCA TEMA - TERRE ETRUSCHE E DI MAREMMA	156	(510)	231	(11)		(49)		(2)	194	(434)
BANCA VALDICHIANA	214	(310)	258	(16)		(21)	67	(1)	323	(271)
BANCA VERONESE	14	(342)	180	(10)	149	(24)		(2)	144	(217)
BANCA VERSILIA	14	(654)	253	(23)		(39)		(2)	188	(388)
BANCO FIORENTINO	23	(1,120)	317	(35)	(22)	(55)		(2)	226	(526)
BCC ABRUZZESE CAPPELLE SUL TAVO	9	(261)	145	(7)		(13)			79	(155)
BCC AGRIGENTINO	3	(27)	49	(1)			10		36	(54)
BCC AGROBRESCIANO	10	(396)	197	(16)	3	(31)		(2)	176	(185)
BCC BASILICATA	6	(177)	75	(7)		(8)			57	(109)
BCC BENI IMMOBILI	48								7	
BCC BERGAMO E VALLI	23	(180)	188	(10)	1,047			(2)	133	(166)
BCC CREDITOCONSUMO	6,796	(1,336)	119				131		195	
BCC DEGLI ULIVI	6	(35)	57	(4)		(5)			47	(45)
BCC DEI COLLI ALBANI	53	(273)	133	(8)		(19)		(1)	90	(199)
BCC DEI COMUNI CILENTANI	11	(479)	137	(16)					118	(175)
BCC DEL BASSO SEBINO	21	(463)	98	(8)	33	(10)			83	(92)
BCC DEL METAURO	10	(491)	132	(17)	1,770	(19)		(1)	138	(112)

INCOME STATEMENT	INTEREST AND SIMILAR INCOME	INTEREST AND SIMILAR EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	NET GAIN (LOSS) ON TRADING ACTIVITIES	NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FVTPL	PERSONNEL EXPENSES	OTHER ADMINISTRATIVE EXPENSES	OTHER OPERATING EXPENSES/INCOME	PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX
BCC DELL ADRIATICO TERAMANO	29	(85)	75	(2)					42	(68)
BCC DELL ALTA BRIANZA	39	(284)	237	(12)	33	(40)		(2)	195	(243)
BCC DELL OGLIO E DEL SERIO	54	(377)	270	(23)	(6)	(45)			185	(231)
BCC DELLA VALLE DEL FITALIA	1	(26)	33	(2)		(3)			32	(13)
BCC DELLA VALLE DEL TRIGNO	14	(144)	57	(3)		(5)			41	(74)
BCC DI ALBA	31	(1,030)	827	(102)	14,001	(144)		(6)	546	(5)
BCC DI ALTOFONTE E CACCAMO	5	(52)	40	(3)		(2)			36	(28)
BCC DI ARBOREA	24	(217)	90	(8)		(11)			66	(63)
BCC DI AVETRANA	4	(36)	51	(6)	15	(4)			38	(29)
BCC DI BARI	8	(89)	61	(2)					39	(44)
BCC DI BASCIANO	8	(52)	49	(3)		(4)			33	(37)
BCC DI BATTIPAGLIA	24	(1,489)	296	(22)		(28)			151	(234)
BCC DI BELLEGRA	4	(90)	59	(4)		(6)			46	(44)
BCC DI BINASCO	31	(235)	212	(12)	714	(48)		(2)	190	(305)
BCC DI BORGHETTO LODIGIANO	11	(85)	80	(5)		(9)		(1)	75	(83)
BCC DI BRENDOLA	51	(715)	329	(30)	2,430	(56)		(3)	227	(334)
BCC DI BUONABITACOLO	6	(62)	44	(1)		(5)			40	(8)
BCC DI BUSTO GAROLFO	28	(353)	287	(12)	(101)	(41)		(1)	180	(402)
BCC DI CAGLIARI	23	(92)	75	(2)					52	(95)
BCC DI CANOSA - LOCONIA	3	(13)	65	(3)		(7)			44	(20)
BCC DI CANTU'	79	(166)	347	(43)	5	(94)		(1)	332	(450)
BCC DI CAPACCIO PAESTUM	8	(584)	134	(12)		(11)			90	(100)
BCC DI CARATE BRIANZA	197	(584)	425	(50)	16	(107)		(2)	360	(259)
BCC DI CARAVAGGIO	38	(792)	260	(32)	9	(55)		(2)	244	(372)
BCC DI CASTELLANA GROTTE	9	(354)	137	(12)	(5)	(19)			119	(103)
BCC DI CASTIGLIONE MESSER R.	49	(405)	183	(18)		(24)			131	(368)
BCC DI CESENA E GATTEO	16	(232)	200	(13)	3,476			(2)	183	(167)
BCC DI CITTANOVA	4	(243)	71	(8)		(7)			88	(76)
BCC DI ERCHIE	5	(17)	38	(4)		(3)			39	(28)
BCC DI FANO	7	(545)	184	(15)	1,142	(34)			162	(36)
BCC DI GAMBATESA	3	(67)	34	(3)		(5)			34	(17)
BCC DI GAUDIANO DI LAVELLO	6	(22)	44	(2)		(3)			38	(22)
BCC DI GRADARA									1	(1)
BCC DI LEVERANO	14	(217)	83	(8)		(10)			65	(112)
BCC DI LEZZENO	31	(441)	103	(14)		(19)			90	(108)
BCC DI MARINA DI GINOSA	4	(47)	45	(4)		(4)			36	(23)
BCC DI MASSAFRA	3	(14)	53	(2)					35	(16)
BCC DI MOZZANICA	2	(35)	36	(4)		(2)			26	(13)
BCC DI NAPOLI	6	(1)	65	(3)		(3)			33	(110)
BCC DI NETTUNO	7	(66)	38	(5)	142	(6)			54	(61)
BCC DI OPPIDO LUCANO	3	(44)	65	(15)		(4)			42	(32)
BCC DI OSTRA E MORRO D ALBA	8	(254)	91	(5)		(11)			107	(24)
BCC DI OSTRA VETERE	5	(105)	73	(6)		(7)			59	(49)
BCC DI OSTUNI	5	(101)	45	(4)		(4)			41	(41)
BCC DI PACHINO -	12	(435)	170	(14)		(15)			107	(177)
BCC DI PALIANO	6	(105)	74	(6)	173	(5)			43	(67)
BCC DI PERGOLA	22	(512)	139	(11)		(23)		(1)	146	(96)
BCC DI PONTASSIEVE	20	(196)	130	(8)	203	(15)		(1)	76	(83)
BCC DI PRATOLA PELIGNA	9	(774)	92	(11)		(13)			107	(148)
BCC DI PUTIGNANO -	4	(17)	31	(1)		(2)			30	1

INCOME STATEMENT	INTEREST AND SIMILAR INCOME	INTEREST AND SIMILAR EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	NET GAIN (LOSS) ON TRADING ACTIVITIES	NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FVTPL	PERSONNEL EXPENSES	OTHER ADMINISTRATIVE EXPENSES	OTHER OPERATING EXPENSES/INCOME	PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX
BCC DI RECANATI E COLMURANO	14	(328)	143	(5)	212	(20)	8	(1)	123	(24)
BCC DI RIANO	5	(54)	64	(5)		(6)			46	(83)
BCC DI RIVAROLO MANTOVANO	12	(81)	114	(8)		(11)		(1)	85	(84)
BCC DI ROMA	33	(662)	1,203	(76)	60,130	(323)	45		761	(3,019)
BCC DI SAN BIAGIO PLATANI	4	(133)	52	(3)		(4)			52	(27)
BCC DI SAN MARCO DEI CAVOTI	8	(161)	105	(11)		(8)			57	(104)
BCC DI SANTERAMO IN COLLE	10	(529)	118	(13)	31	(14)			88	(122)
BCC DI SERINO										
BCC DI SPINAZZOLA	3	(73)	52	(3)		(4)			43	(30)
BCC DI STARANZANO E VILLESSE	22	(257)	159	(15)		(24)		(2)	127	(281)
BCC DI TERRA DOTRANTO	5	(169)	82	(5)		(7)			55	(62)
BCC DI TREVIGLIO	454	(151)	318	(18)	19	(64)		(3)	288	(361)
BCC DI TRIUGGIO	39	(241)	154	(12)	(82)	(14)		(1)	111	(155)
BCC DI VALLEDOLMO	1	(15)	20	(1)		(1)			22	(2)
BCC DI VIGNOLE	44	(429)	293	(25)	(2)	(39)		(2)	192	(337)
BCC DON STELLA DI RESUTTANO	1	(158)	22	(2)		(1)			30	
BCC FACTORING	133	(19)	13				137		65	
BCC FALCONARA MARITTIMA	191	(158)	136	(6)		(8)	49	(1)	122	(87)
BCC G. TONIOLO DI SAN CATALDO	101	(1,263)	200	(29)		(31)		(1)	197	(113)
BCC GESTIONE CREDITI	1		4				56		85	
BCC LEASE	2,289		120				61		97	
BCC MEDIOCRATI	16	(249)	194	(17)					103	(201)
BCC MILANO	47	(1,255)	648	(37)	83	(113)		(4)	428	(911)
BCC MUTUO SOCCORSO GANGI	10	(60)	36	(2)		(3)			36	(14)
BCC PORDENONESE	85	(444)	341	(15)	3,289	(51)			225	(306)
BCC RAVENNATE E IMOLESE	198	(1,156)	656	(68)	15,372	(142)		(2)	555	(575)
BCC RISPARMIO E PREVIDENZA				(3)			336		576	
BCC S. MICHELE DI CALTANISSETTA	5	(272)	56	(10)		(10)			72	(37)
BCC SAN GIUSEPPE DI MUSSOMELI	3	(162)	25	(3)		(2)			35	(3)
BCC SAN GIUSEPPE DI PETRALIA S.	3	(271)	62	(5)	14	(5)			57	(20)
BCC SERVIZI INFORMATICI							160	(8,605)	369	
BCC SOLUTIONS	511		4				703	(15,531)	249	
BCC TERRA DI LAVORO	9	(134)	138	(12)		(10)			61	(186)
BCC UMBRIA	35	(710)	246	(19)	452			(2)	177	(386)
BCC VALLE DEL TORTO	6	(136)	46	(6)		(4)			41	(3)
BCC VICENTINO	9	(261)	141	(9)	(15)	(21)		(2)	129	(123)
BCCDELL AGRO PONTINO	12	(453)	170	(17)		(19)			108	(211)
CENTROMARCA BANCA	118	(294)	342	(16)	16	(60)		(4)	272	(506)
CEREABANCA 1897	13	(34)	77	(6)		(10)		(2)	81	(37)
CHIANTI BANCA	433	(950)	508	(24)	9	(114)	2	(2)	369	(192)
COOPERSYSTEM SOC. COOP.										
CREDIFRIULI	21	(258)	221	(17)	2,505				191	(186)
CREDITO COOPERATIVO DI SAN CALOGERO E MAIERATO-BCC DEL VIBONESE	18	(159)	81	(8)	202	(8)			66	(108)
CREDITO PADANO	100	(646)	288	(18)	16,744	(48)		(8)	280	(331)
CREDITO TREVIGIANO-BANCA DI CREDITO COOPERATIVO-SOCIETA'	40	(778)	231	(10)		(39)		(5)	218	(251)
EMIL BANCA - CREDITO COOPERATIVO - SOCIETA' COOPERATIVA	29	(932)	690	(77)	3,538			(4)	571	(910)

INCOME STATEMENT	INTEREST AND SIMILAR INCOME	INTEREST AND SIMILAR EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	NET GAIN (LOSS) ON TRADING ACTIVITIES	NET GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FVTPL	PERSONNEL EXPENSES	OTHER ADMINISTRATIVE EXPENSES	OTHER OPERATING EXPENSES/INCOME	PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX
ICCREA BANCAIMPRESA SPA	30,464	(2,189)	136		21,153		214		2,745	
LA BCC DEL CROTONESE - CREDITO COOPERATIVO	4	(105)	74	(9)		(6)			41	(93)
RIMINIBANCA	62	(1,907)	415	(40)	366	(81)		(2)	363	(427)
SIGEST SRL										
SINERGIA SOCIETA' CONSORTILE A RESPONSAB LIMITATA								(3)	12	(2,575)
VALPOLICELLA BENACO BANCA CREDITO COOPERATIVO VERONA	37	(217)	130	(7)		(20)		(2)	106	(204)
VIVAL BANCA -BANCA DI CREDITO COOPERATIVO DI MONTECATINI TERME, BIENTINA E S. PIETRO IN VINCIO S.C.	156	(277)	279	(9)	56	(40)		(2)	167	(259)

The following table reports the disclosures on transactions with related parties other than those consolidated on a line-by-line basis, which were reported in the previous tables.

	Branches and other Group entities	Associates and joint ventures	Key management personnel	Other related parties
Selected financial assets	**(2,860)**	**(83)**	**(179)**	**-**
Equity instruments	(722)			
Debt securities				
Loans and advances	(2,138)	(83)	(179)	
of which: impaired				
Selected financial liabilities	**6,173**	**12,761**	**-**	**-**
Deposits	6,173	12,761		
Debt securities issued				
Nominal value of commitments to disburse funds, financial guarantees and other commitments given	**1,870**	**1,000**		

	Branches and other Group entities	Associates and joint ventures	Key management personnel	Other related parties
Interest income		(40)		
Interest expense				
Dividends				
Fee and commission income		130		
Fee and commission expense			(4,311)	

PART I
Share-based payments

As at the reporting date, the bank had no payment agreements based on its own equity instruments in place.

PART L
Operating segments

PRIMARY REPORTING BASIS

In line with the provisions of IFRS 8, operating segment disclosures have been based on elements that management uses in taking its own operational and strategic decisions.

Iccrea Banca systematically prepares management reports on the results achieved by the individual business segments into which its operations and organization are structured.

These segments are finance and lending, payment systems, in addition to central governance and support functions, as well as the institutional services and ICT functions grouped under the "Corporate Centre".

The business segments are formed from the aggregation of similar business units and lines in terms of the types of products and service they provide. This representation reflects the operational responsibilities set out in the Bank's organizational arrangements, with periodic reporting to top management.

More specifically, the finance and lending business segment includes the units Capital Market, Treasury, Structured Finance and Institutional Lending, while the payment system segment comprises Collections and Payments, E-Bank.

INCOME STATEMENT

The following reports the main aggregates of the income statement by business segment.

	Finance and lending		Payment services		Corporate center		Total	
(thousands of euros)	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**	**Jun-19**	**Jun-18**
Net interest income	31,214	30,019	(179)	(560)	(1,625)	(3,389)	29,410	26,070
Net service income	32,461	(47,552)	17,944	62,786	67,444	49,697	117,849	64,930
Total revenues	**63,675**	**(17,533)**	**17,765**	**62,226**	**65,819**	**46,308**	**147,259**	**91,001**
Administrative expenses	43,841	47,609	10,830	51,007	107,129	62,897	161,800	161,513
Net adjustments of property and equipment and intangible assets	528	914	394	1,187	4,052	1,262	4,974	3,363
Other operating expenses/income	95	104	0	5,206	25,351	8,977	25,446	14,286
Total operating expenses	**44,273**	**48,420**	**11,224**	**46,988**	**85,831**	**55,182**	**141,328**	**150,590**
Gross operating income	**19,401**	**(65,9539**	**6,541**	**15,238**	**(20,0129**	**(8,874)**	**5,931**	**(59,589)**

The figures for payment services do not include data for e-banking operations, which are involved in the planned disposal of the electronic money business line.

As regards the procedures for the determination of performance:

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

BALANCE SHEET

The following table reports the main balance sheet aggregates for lending to and funding from customers and banks. Liabilities include share capital, reserves and net profit for the period.

The main balance sheet aggregates for lending to and funding from customers and banks are primarily attributable to the finance and lending segment (94%), as the payment system segment is mainly involved in providing fee-based services.

	Finance and lending		Payment services		Corporate center		Total	
(millions of euros)	Jun-19	Dec-18	Jun-19	Dec-18	Jun-19	Dec-18	Jun-19	Dec-17
Cash and loans to customers	11,654	10,706	-	-	104	41	11,758	10,747
Due from banks	26,340	25,656	-	-	-	-	26,340	25,656
Other assets	1,972	1,160	4	-	1,607	1,600	3,583	2,760
TOTAL LENDING	**39,966**	**37,522**	**4**	**-**	**1,711**	**1,641**	**41,681**	**39,163**
Due to customers	12,499	12,153	357	356	18	8	12,874	12,517
Due to banks	20,132	19,425	-	-	-	-	20,132	19,425
Other liabilities	6,582	5,541	-	-	2,103	1,700	8,685	7,241
TOTAL FUNDING	**39,213**	**37,119**	**357**	**356**	**2,121**	**1,708**	**41,691**	**39,183**

The mismatch in the totals for lending and funding is attributable to the e-banking sector, which is involved in the planned disposal of the electronic money business line.

SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Bank operates almost exclusively in Italy.

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 of the Iccrea Cooperative Banking Group (ICBG) has paid in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory requirements at the individual level - in order to enable the Parent Company to carry out financial support interventions to ensure the solvency and liquidity of the individual member banks.

In order to ensure that the Parent Company has ready access to the financial resources needed to intervene, the participating banks have provided readily available funds, represented by an up-front contribution held at the Parent Company (the Ex Ante Quota) and a portion that can be called up by the Parent Company in case of need (the Ex Post Quota) with contributions in the technical forms provided for under the cohesion contract.

To quantify the overall amount of readily available resources, as provided for under the cohesion contract, the ICBG conducted stress tests of the participating banks to quantify their potential capital requirements in an adverse scenario, and, consequently, verify the necessary volume of Group funds. The calculation of the readily available funds for 2019 showed a potential capital requirement of €1,339.6 million, which breaks down as follows:

- an Ex Ante Quota of €504.5 million (€419.57 million pertaining to the affiliated banks and €84.96 million pertaining to the Parent Company);
- an Ex Post Quota of €835.1 million (€803.35 million pertaining to the affiliated banks and €31.75 million pertaining to the Parent Company).

Based on the provisions of Article 6, paragraph 6, of the cohesion contract, each of the ICBG's participating Banks has established the Ex Ante Quota at the Parent Company through loans for a specific deal pursuant to Article 2447 bis, letter b) and Article 2447-decies of the Italian Civil Code.

The obligations relating to the establishment of the Ex Ante Quota were discharged on April 15m 2019 with the execution of the Loan Agreement the parties.

The Parent Company has invested the ex ante resources in readily liquidated assets in accordance with the limits and requirements established in the Investment Policy.

ACCOUNTING ISSUES

The rules governing the loan for a specific deal 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.

The following tables are expressed in euros.

BALANCE SHEET – ASSETS

	Assets	30/6/2019
10.	Cash and cash equivalents	15,516,203
20.	Financial assets measured at fair value through profit or loss	492,359,263
	b) financial assets designated as at fair value	492,359,263
40.	Financial assets measured at amortized cost	1,438,423
	a) due from banks	1,438,423
	Total assets	**509,313,889**

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 ASSET 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 readily available funds. The following table provides a breakdown of the financial instruments subscribed by country of issue and/or type of instrument:

Country/Type of instrument	30/6/2019
Italy	151,926,903
Spain	101,443,384
France	58,321,561
Germany	56,480,386
Belgium	14,446,762
Ireland	10,589,771
The Netherlands	3,070,256
Finland	1,843,288
Austria	1,535,434
Supranational	50,613,232
Covered bonds	42,088,286
Total	**492,359,263**

FINANCIAL ASSETS MEASURED AT AMORTIZED COST – DUE FROM BANKS

The item includes cash and cash equivalents held on a Euroclear account.

BALANCE SHEET – LIABILITIES

	Liabilities	30/6/2019
30.	Financial liabilities designated as at fair value	423,550,271
80.	Other liabilities	85,763,618
	Total liabilities and shareholders' equity	**509,313,889**

FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE

The item includes the Ex Ante Quota of the affiliated banks (€419.57 million), adjusted to account for the net interest and other gains/losses generated on the loan at June 30, 2019. The increase in value of the quotas (amounting to €3.97 million) is mainly attributable to 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 (€84.96 million), adjusted to account for the net interest and other gains/losses generated on the loan at June 30, 2019 (€0.8 million).

80	Other liabilities	85,763,618
	Ex Ante Quota pertaining to Iccrea Banca S.p.A	85,761,023
	Euroclear fees and commissions	2,594

INCOME STATEMENT

		30/6/2019
10.	Interest and similar income	713,083
20.	Interest and similar expense	**(38,176)**
30.	**Net interest income**	**674,907**
50.	Fee and commission expense	**(14,023)**
60.	**Net fee and commission income (expense)**	**(14,023)**
110.	Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	143,856
	a) financial assets and liabilities designated as at fair value	143,856
120.	**Gross income**	**804,740**
150.	**Net income (loss) from financial operations**	**804,740**
200.	Other operating expenses/income	**(804,740)**
210.	**Operating expenses**	**(804,740)**
300.	**Net profit (loss) for the period**	**-**

INTEREST AND SIMILAR INCOME

Interest income includes interest accrued on financial instruments held, invested in accordance with the Investment Policy of the Guarantee Scheme.

INTEREST AND SIMILAR EXPENSE

Interest expense includes interest paid on the Euroclear account (amounting to €28,515) and the PM account of the Bank of Italy (€9,661).

FEE AND COMMISSION EXPENSE

The item includes costs incurred for operations with Euroclear (custody fees and expenses).

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 readily available funds, less the pro-rated share attributable to the affiliated banks in accordance with the accounting rules for the loan.

110.a	Net gain (loss) on financial assets and liabilities designated as at fair value	143,857
	Net gain (loss) on financial assets and liabilities designated as at fair value	4,118,250
	Change in value of financial liabilities designated as at fair value	(3,974,393)

OTHER OPERATING EXPENSES

The item comprises changes in the value of the Ex Ante Quota pertaining to the Parent Company, reflecting the gains/losses generated on the loan at June 30, 2019.

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)

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Review report on the interim financial statements

To the Shareholders of
Iccrea Banca S.p.A.

Introduction

We have reviewed the interim financial statements, comprising the balance sheet as of June 30, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flows for the period then ended and the related explanatory notes to the financial statement 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. as of June 30, 2019 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 14, 2019

EY S.p.A.
Signed by: Wassim Abou Said, Partner

This report has been translated into the English language solely for the convenience of international readers

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