Iccrea Banca

Gruppo Bancario Cooperativo Iccrea

Reports and Consolidated and Separate Financial Statements at June 30, 2021

Report and consolidated financial statements at June 30, 2021
of the Iccrea Cooperative Banking Group

Report and separate financial statements at June 30, 2021
of the Parent Company Iccrea Banca SpA

Iccrea Banca SpA
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
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REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE ICCREA COOPERATIVE BANKING GROUP

CONSOLIDATED REPORT ON OPERATIONS

June 30, 2021

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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*
VENTO Gianfranco Antonio	*Alternate Auditor*
CIGNOLINI MICHELA	*Alternate Auditor*

SENIOR MANAGEMENT

PASTORE Mauro	*General Manager*
ROMITO Francesco	*Senior Deputy General Manager*
GALBIATI Pietro	*Deputy General Manager*

1. EXECUTIVE SUMMARY

MAIN INDICATORS AT JUNE 30, 2021, DECEMBER 31, 2020 AND JUNE 30, 2020

PERFORMANCE INDICATORS[1] (amounts in thousands of euros)	30/06/2021	31/12/2020	30/06/2020
STRUCTURAL RATIOS			
Net loans to customers measured at amortized cost /total assets	50.3%	51.5%	50.9%
Direct funding from customers/total liabilities	63.5%	66.9%	64.4%
Equity (including profit/loss) /total liabilities	6.1%	6.1%	6.1%
Loan to deposit ratio	71.5%	71.5%	69.7%
Net loans to ordinary customers measured at amortized cost /direct funding from ordinary customers[2]	74.4%	75.3%	76.8%
PROFITABILITY RATIOS			
ROE (Net profit)/ net equity including the profit for the period)	3.8%	1.9%	1.2%
ROTE [Net profit/net tangible equity (Equity including profit – intangible assets]	3.9%	1.9%	1.2%
ROA (Net profit/total assets)	0.2%	0.1%	0.1%
Cost/income ratio	64.8%	73.1%	71.7%
Personnel expenses/gross income	36.4%	42.5%	41.0%
Net interest income/gross income	58.3%	61.9%	59.6%
Net fee and commission income /gross income	28.0%	31.0%	29.7%
Net interest income/Number of employees at end-period	61.98	113.9	54.6
Net fee and commission income/Number of employees at end-period	29.7	57	27.2
Gross income/Number of employees at end-period	106.3	184	91.6
RISK RATIOS			
Gross impaired loans/gross loans measured at amortized cost[3]	8.1%	8.5%	10.6%
Gross impaired loans to customers/gross loans to customers measured at amortized cost	8.9%	9.1%	11.5%
Net impaired loans to customers/net loans to customers measured at amortized cost	4.0%	4.3%	5.9%
Net Stage 2 loans to customers measured at amortized cost/net performing loans to customers measured at amortized cost	11.1%	11.3%	12.5%
Net bad loans/net loans to customers measured at amortized cost	1.3%	1.4%	2.1%
Net UTP loans/net loans to customers measured at amortized cost	2.3%	2.7%	3.2%
Net writedowns/(writebacks) for credit risk/net loans to customers measured at amortized cost	0.4%	1.0%	0.5%
Writedowns of impaired loans/gross loans to customers measured at amortized cost	57.4%	55.7%	52.7%
Writedowns of bad loans/gross bad loans	71.9%	70.4%	66.6%
Writedowns of UTP loans/gross UTP loans	46.6%	43.6%	39.6%
Texas ratio	54.3%	56.8%	67.8%
CAPITAL RATIOS - *phased-in*			
Tier 1 ratio	16.6%	16.8%	16.2%
Common Equity Tier 1 ratio	16,5%	16.7%	16.1%
Total capital ratio	17.2%	17.5%	16.9%
Total own funds	11,339,935	11,509,449	11,464,124
of which: Tier 1 capital after filters and deductions	*10,902,695*	*11,059,663*	*10,978,849*
Risk-weighted assets (RWA)	65.851,133	65,939,244	67,912,102
CAPITAL RATIOS - *fully loaded*			
Tier 1 ratio	15.4%	15.2%	14.7%
Common Equity Tier 1 ratio	15.4%	15.2%	14.7%
Total capital ratio	16.1%	15.9%	15.4%

[1] For an explanation of how the performance indicators are calculated, refer to Annex 2 – Alternative Performance Indicators

[2] Lending to and funding from customers calculated net of exposures vis-à-vis CC&G

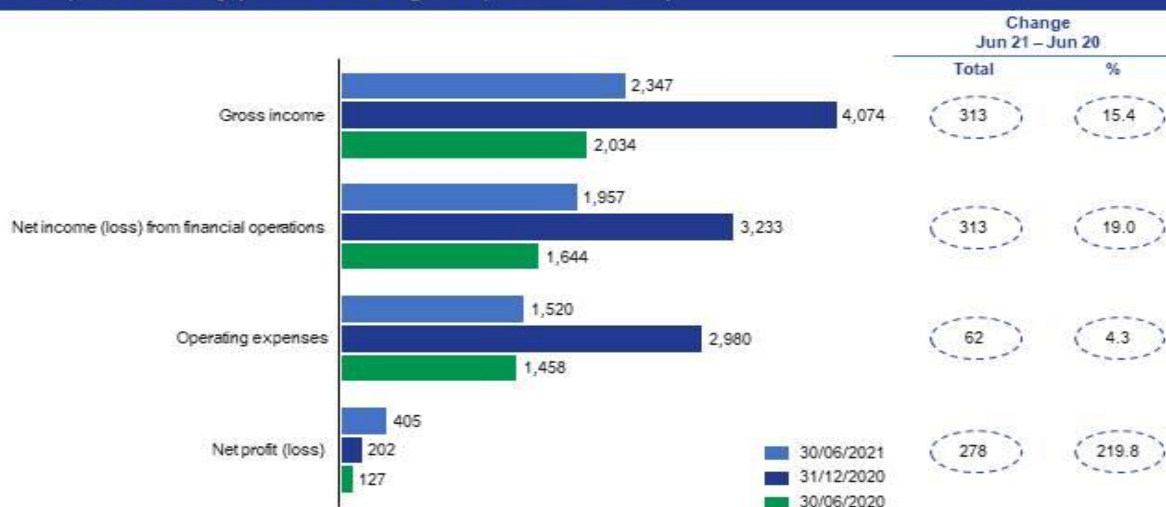
[3] Calculated based on the EBA definition including exposures to banks.

PERFORMANCE INDICATORS[4] (amounts in thousands of euros)	30/06/2021	31/12/2020	30/06/2020
LEVARAGE RATIO			
Phased-in Tier 1/Total assets	6.1%	6.4%	6.2%
Fully loaded Tier 1/Total assets	5.7%	5.8%	5.5%
LIQUIDITY RATIOS			
Liquidity coverage ratio (LCR)	300%	299.2%	287.1%
Net stable funding ratio (NSFR)	131%	131.6%	130.0%
Encumbered asset ratio	25.9%	26.1%	28.8%

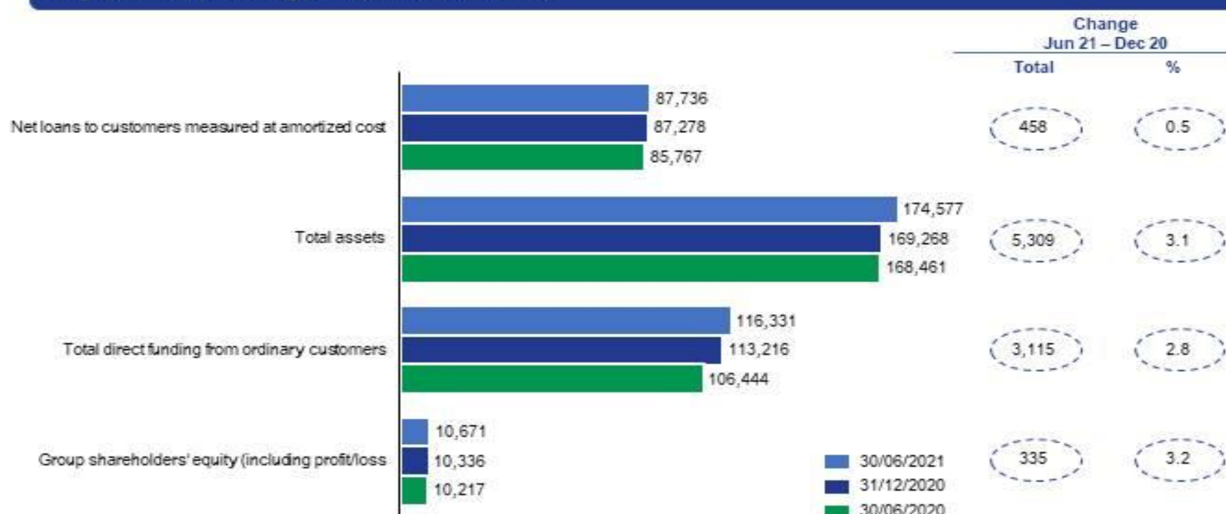
INCOME STATEMENT, BALANCE SHEET, OPERATIONAL AND STRUCTURAL DATA	30/06/2021	31/12/2020	30/06/2020
Profit/(loss) for the period	404,985	202,320	126,625
Profit/(loss) pertaining to the Group	400,303	195,793	122,123
Gross income	2,347,269	4,073,661	2,033,535
Operating expenses	1,520,172	2,979,517	1,457,800
Net loans to customers measured at amortized cost	87,736,045	87,277,814	85,766,612
of which: Net bad loans	*1,135.026*	*1,198,568*	*1,836,150*
of which: Net UTP loans	*2,020,611*	*2,329,183*	*2,767,599*
Net non-performing loans	3,529,349	3,739,992	5,017,923
Total direct funding from ordinary customers	116,330,725	113,215,862	106,444,437
Equity pertaining to the Group (including profit/loss)	10,670,750	10,336,056	10,216,510
Intangible assets	159,932	168,844	150,459
Total consolidated assets	174,577,128	169,268,115	168,460,726
Number of branches	2,515	2,529	2,552
Number of Group banks	134	136	140
Number of affiliated mutual banks	130	132	136
Number of employees at end-period	22,079	22,141	22,196
Average number of employees	21,614	21,730	

[4] For an explanation of how the performance indicators are calculated, refer to Annex 2 – Alternative Performance Indicators

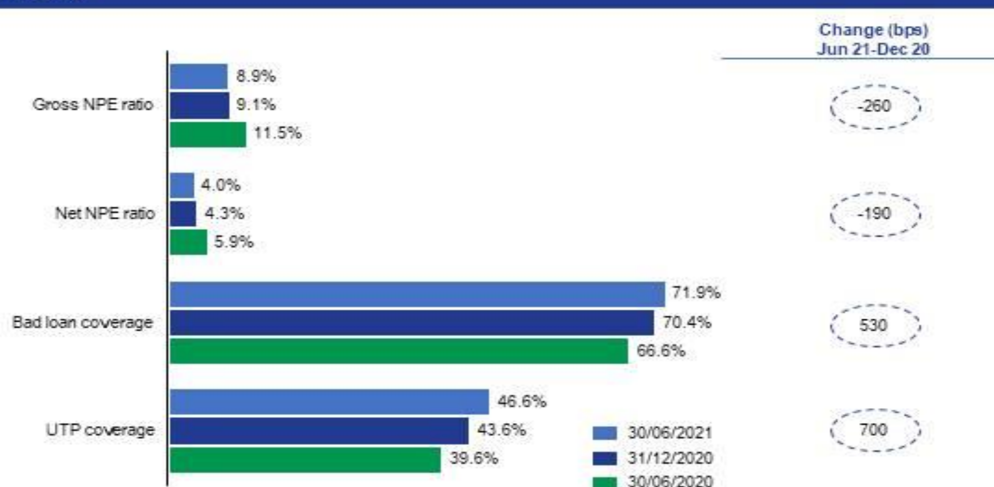
Developments in key performance figures (millions of euros)



Key balance-sheet figures (millions of euros)



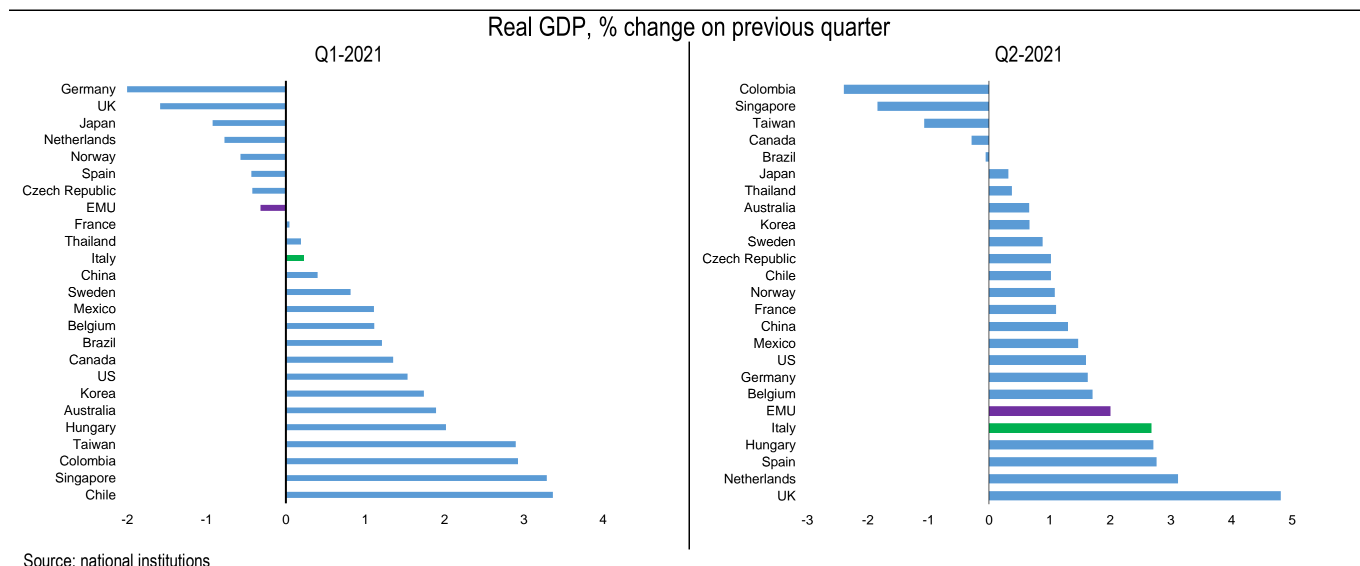
Key risk indicators (%)



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

The macroeconomic environment

Since the beginning of 2021, the intensification of vaccination campaigns in the industrial countries and the simultaneous reactivation of the services most penalized by the restrictions imposed to combat the spread of the virus have produced a rapid and sharp improvement in the global climate of confidence. This was followed by a strong acceleration in demand from households and businesses, which generated rapid GDP growth in the second quarter of the year and helped fuel upward pressures on prices, with supply struggling to keep up with demand.



Source: national institutions

Developments in GDP in the second quarter of 2021 confirm both the persistent heterogeneity of the recovery across the major areas of the world and its continuing strong dependence on the diffusion of the pandemic and, therefore, on measures deployed to combat it. The US economy has recovered its pre-crisis level of GDP thanks above all to household consumption, which is also at the basis of the acceleration of GDP in the main EMU countries. China continued to grow vigorously, with positive repercussions for all of Asia and the world economy as a whole.

In the summer, the resurgence of the pandemic, including in a number of strategic areas of China for production and world trade, the continuing difficulties in supplying certain intermediate goods and the increase in inflation caused the confidence of households and firms to stabilize. This suggests that the acceleration of the world economy is dissipating or at the least slowing sharply, although growth remains at a historically high pace, while the risk of an increase in inflation at the global level is becoming more concrete.

After a shock like that experienced in 2020 and 2021, with an increase in prices that must considered normal, the risk that this push on prices could trigger an inflationary spiral and is not just a temporary phenomenon must also be considered. The reaction of central banks, and the Federal Reserve in particular, therefore becomes crucial for both the recovery of the US economy and global activity. Tolerating inflation above the target for a prolonged period could increase the risk of de-anchoring expectations and thus paving the way for the feared inflationary spiral. Intervening by raising rates prematurely through monetary policy actions could engender strong tensions both in the financial markets and in real economy, undermining the ongoing recovery. At the same time, a premature restrictive intervention by the Fed could jeopardize the management of monetary policy in countries that are recovering more slowly than the United States (and which therefore face less inflationary risk), which could trigger global financial and currency crises if the allocative choices of international investors were to drastically shift in favor of the dollar to the detriment of countries that need international capital.

While inflation is rising progressively in the United States in particular, many other advanced economies, particularly in the euro area and Asia, are experiencing relatively small price increases. Medium-term forecasts show an acceleration in the inflation rate in the latter areas, albeit at levels that are still significantly lower than in the United States, while China, which since the second quarter had registered a sharp fall in the rate of inflation, should see an increase from the end of this year, returning to US levels from the second half of 2022.

The following table reports annual inflation forecasts for selected economies.

Location	Q4-2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022
Euro area (17 countries)	1.00	1.09	0.22	-0.02	-0.27	1.03	1.70	2.00	2.27	1.22	1.17	1.26	1.33
Italy	0.29	0.23	-0.19	-0.23	-0.38	0.74	1.26	1.50	1.81	0.99	0.89	0.95	1.01
United Kingdom	1.42	1.65	0.69	0.61	0.59	0.64	1.32	1.39	1.67	1.65	1.62	1.67	1.74
United States	2.03	2.10	0.43	1.26	1.21	1.89	4.24	3.78	3.72	3.36	2.45	2.39	2.50
China	4.20	4.92	2.81	2.22	0.12	-0.11	1.48	1.83	2.93	2.75	2.50	2.25	2.00
OECD - Total	1.71	1.95	1.01	1.27	1.19	1.91	3.03	2.94	3.15	2.67	2.36	2.34	2.38

Source: based on data from OECD, Inflation forecast

The mismatch between supply and demand for goods and services, accompanied by the strong volatility of international commodity prices (excluding oil) since the middle of last year, represents a further source of global inflationary risk. The Economist's dollar index of industrial commodities at the end of August this year was 59.6% higher than the value recorded in December 2019. However, a number factors behind these rises suggest that these are temporary effects, destined to stabilize or even decline starting from the second half of the year, as is already evident for certain commodities. The economic policy initiatives taken by China to revive the economy after the collapse in the first quarter of 2020 involved the launch of a vast industrial plan that was accompanied by a strong acceleration in the demand for minerals used in production. In other demand-side developments, the consumption choices of households in the advanced economies have necessarily skewed more towards durable goods, which are more commodity-intensive than services, compared with the pre-crisis period. On the supply side, the rally in the prices of certain commodities is the result of the halt in mining operations for minerals such as copper and iron after the closure of mines in Latin America in 2020 in response to the spread of the virus, associated with production discontinuities in Europe that have closed down petrochemical plants.

In the environment described above, the recent forecasts in the OECD's *Interim Economic Outlook* expected global GDP to grow by 5.7% in 2021 and 4.5% in 2022, with growth that should exceed pre-pandemic levels, although gaps in output and employment remain in many countries. This is particularly true for the emerging markets and developing economies, where vaccination rates are low. The growth forecasts for the euro area amount to 5.3% for 2021 and 4.6% for 2022. According to the organization's experts, the fiscal policies of the OECD countries should remain flexible and responsive to the state of the economy, avoiding a premature and sudden withdrawal of political support as the near-term outlook is still uncertain.

United States. After experiencing the deepest recession since World War II in 2020, with an average annual contraction in GDP of 3.5%, the lifting of the measures imposed to counter the effects of the pandemic has underpinned the recovery in the first part of 2021. GDP posted annualized growth of 6.3% in the first quarter of the year and continued at that pace in the second quarter as well (6.6%), which made it possible to recoup pre-crisis levels as early as March 2021, with private consumption in the second quarter of this year exceeding the level registered at the end of 2019. Looking forward, the large savings buffer accumulated by households thanks to public transfers and the revaluation of the stock of wealth represents a potential pool of demand for goods and services that can continue to support domestic spending. However, a number of factors point to a deceleration in the second half of the year. The resurgence of the pandemic in the summer months due to the spread of virus variants, the slowdown in the vaccination campaign and the relative peaks registered by inflation (5.3% in July, according to the CPI) are adversely impacting household confidence.

Congress is discussing the budget proposal presented by President Biden in May (the American Jobs Plan and American Families Plan), which is seeking to reduce income inequality among Americans and revive a more efficient and climate-sustainable economy. According to Biden's proposals, these objectives can be achieved with a broad plan of public investments in infrastructure and green technologies and by increasing public support for education. It is unlikely that it will be easy to achieve consensus on the amount requested by Biden, partly because it will worsen the public finances and is also opposed by a segment of the Democratic party.

Monetary policy-makers are beginning to evaluate the possibility of gradually starting to withdraw support for the economy, especially in a context of surging inflation. At the Federal Reserve meeting held in Jackson Hole on August 26, Chairman Powell stated that he believes it is possible to start tapering (scaling back monthly purchases of securities by the Fed) within the year, but dissociating any policy rate hike from this possibility, at least in the short term.

Emerging economies. As with industrialized countries, industrial activity in most emerging economies continued to grow during the pandemic waves between the end of 2020 and the beginning of 2021, unlike the experience during the first wave in early 2020, which produced record contractions of GDP in many countries (such as the quarter-on-quarter decline of 25% in Indian GDP in Q2-2020). The negative impact on GDP was therefore relatively limited at the beginning of 2021, with positive growth rates that in many cases should also be confirmed in the second quarter. By contrast, a negative tone characterized the summer months. Many Asian countries are facing a more serious health crisis than in early 2020, and the delay in vaccination campaigns has clouded the economic outlook. Among the countries affected by new outbreaks, China has reacted with stringent limited lockdowns, but if this were to occur in strategic locations for world trade, the effects would not be limited to the Chinese economy but would instead spread to commercial partners. This would have non-negligible repercussions on output and world trade, which have essentially been stable since May after rebounding in the second half of 2020 and early 2021, according to the Central Planning Bureau's World Trade Monitor.

European Union. After a difficult start to 2021 (in the first quarter, a contraction of 0.3% in GDP on the previous quarter), the acceleration of

vaccinations and the relaxation of restrictions contributed to the unexpected acceleration in the second quarter (up 2% on the previous quarter), albeit with substantial differences between the main countries. The diversity of the pace of GDP growth, however, reflects analogous developments in the more dynamic components of demand. While GDP in Italy and Spain grew by more than 2.5% on the previous quarter (2.7% and 2.8% respectively), in Germany the growth rate only reached 1.6% and just 0.9% in France. In all the main countries, household consumption has been the driving force of the recovery, thanks to the reopening of many services, while some nations continue to experience difficulties in consolidating the recovery in investments in capital goods, penalized by the scarcity of supply of certain intermediate goods, semiconductors first and foremost, as well as delays in delivery and the high prices of some commodities. In this environment, the greater relative weight of industry in Germany helps to explain the comparatively slower growth of this economy.

While continuing to post relative peak values, the economic indicators for the summer months reveal a stabilization if not a reversal of the growth trend, pointing to a good pace of expansion in the second half of the year without, however, any further acceleration.

Advances from European funds to revive economic growth are arriving in many countries, providing additional support for economic recovery. Inflation is also picking up in Europe, albeit without reaching the values experienced in the United States. The flash estimate for August points to a 3% increase in the harmonized consumer price index, although this reflects the base effect linked to changes in VAT in Germany in addition to the impact of the increase in the prices of raw materials, including food products. In this context, the ECB therefore does not currently appear concerned about any imminent inflationary risk, understood as inflation above the target for a prolonged period. At the meeting of the Governing Council in mid-July, President Lagarde reaffirmed the ECB's commitment to maintaining all the support necessary to ensure favorable conditions for the economy even during the recovery phase.

Italy. Except for general government spending and inventories, all other components of demand made a positive contribution to Italian GDP growth in the second quarter (2.7% compared with the previous quarter), in particular household consumption, which began to expand again (5%). The driving force behind consumption was services, which were severely affected by the restrictive measures, with a significant recovery in the trade, transport and housing sectors. Foreign tourism made a positive contribution to this trend, together with Italian home-grown tourism, with Italian tourist generally avoiding foreign destinations. In line with the high level of business confidence, growth has been accelerated by capital investment, which has not stopped since the summer of 2020. Despite having long been well above pre-COVID values, construction investment continued to expand at a rapid pace, albeit more slowly than in the first quarter, a development that threatened to bring the construction sector to a halt due to scarcity of materials and a shortage of skilled labor. This risk must not be underestimated, because within the year the sector will be further strained by the start of the initial projects envisaged under the NRRP.

According to the available economic indicators, GDP growth remained buoyant in the summer as well. From the autumn, the economy should move ahead at "cruising speed" unless virus variants and new mobility restrictions intervene. In this context, the driver of growth will shift from the industrial sector to services. After having returned to pre-pandemic values, industrial growth will slow due to the constraints arising in the production of certain intermediate goods and the halt of operations at some ports in Asia as a result of new cases of COVID-19. Meanwhile, services will benefit from the strong upsurge in summer tourism. Average GDP growth this year, based on initial information released by the OECD, which among other things is in line with the forecasts of the Italian government, should be around 6%, with a forecast for growth of over 4% in 2022 as well.

The recovery has been accompanied by growth in employment: in July payroll employment had risen by 530,000 compared with last January, of which 204,000 workers on permanent contracts and 327,000 on fixed-term contracts. At the same time, this contributed to reducing the unemployment rate from 10.2% to 9.3%. This is an encouraging development but is not yet sufficient to boost the situation of two categories, that of young NEETs (Neither in Employment or in Education or Training) and women, categories that were further weakened, marginalizing these workers - whose socio-demographic conditions were already disadvantaged – even more.

The repercussions of the rise in the international prices of energy goods and many commodities and semi-finished products are being reflected in domestic prices, starting with the initial stages of the distribution chain. Producer prices are rising quickly, going from a contraction of 7% in April-May 2020 to an increase 12.3% last July. Fluctuations have been large, mainly due to energy goods, the effects of which have been shifted to consumer prices, which in August grew by 2.1% compared with the same month of 2020, an acceleration compared with July (1.9%).

Assuming that the adverse effects of the pandemic are gradually easing, the Italian economy will have to face a number of important challenges to emerge from the economic crisis. The use of NGEU funds will certainly be an important driver of the economic recovery, given the large volume of resources available, but much will depend on the country's ability to use those resources. Among the beneficiary countries, Italy has the largest amount of resources available at over €200 billion, or 11.5% of 2019 GDP. Of this, about €80 billion is in the form of grants and the remainder in loans. As already indicated in the Economic and Financial Document, the Government's intention is to use all potentially available funds, in addition to a Complementary Fund of €30 billion, which would raise the amount available to over €230 billion.

The NRRP, which received the green light from the Commission in July, is a vast and ambitious program, with spending targets primarily aimed at increasing the digitization of the economy and facilitating the transition to a more environmentally sustainable economy. The program is also ambitious because it will have to go hand in hand with the implementation of major structural reforms.

Another important issue that Italy will have to face is the removal of the exceptional measures implemented to address with the pandemic. While fiscal policy is continuing to support the economy this year with a commitment that, summing the impact of the various decrees issued, is now comparable to the exceptional response rolled out in 2020, starting from 2022 budget policy will have to return to a more neutral stance and resume the path of debt reduction.

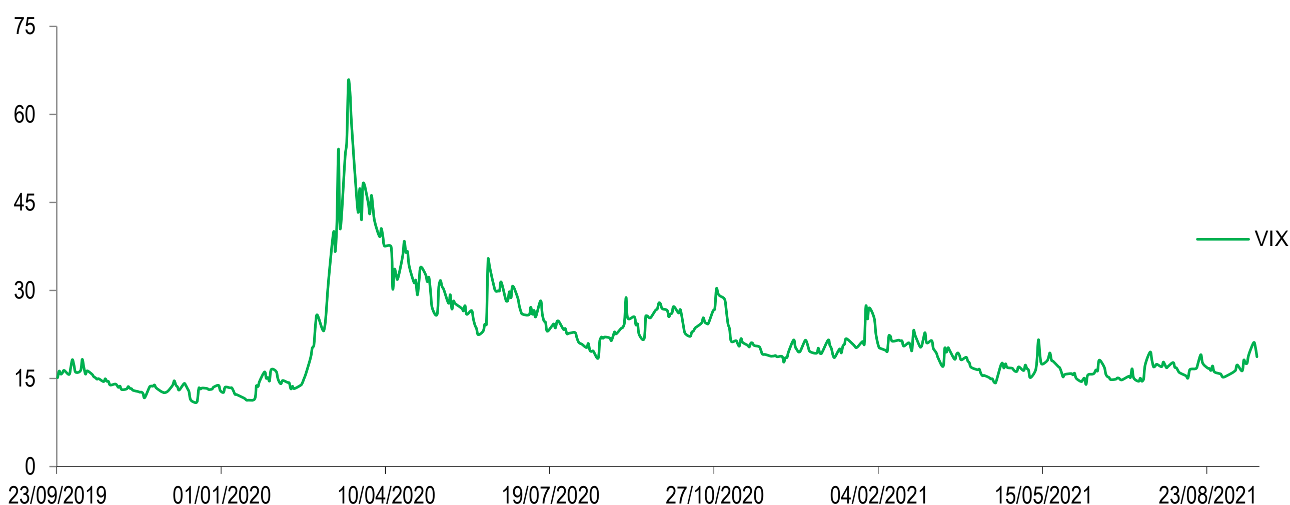
In light of these considerations, the most recent scenario envisages a deceleration in GDP growth towards 4% in 2022. Growth will be driven

by all the components of demand except for general government spending, which will be affected by the end of the health emergency. The debt-to-GDP ratio is expected to rise to around 160% this year, when the favorable impact of growth will not be sufficient to offset the deterioration in the primary balance, declining only slowly to 155% in 2022 (about 16 percentage points higher than in 2019).

The trend of the financial markets

The persistence of the crisis connected with the pandemic also had major repercussions on the financial markets, fueling a climate of growing uncertainty and eroding, especially in the early phase of the health emergency, investor confidence.

Global financial markets were affected by the progressive halt in economic activity starting from March 2020. Market tensions culminated in the shock recorded in mid-March: the exceptional volatility in share prices caused the VIX volatility index,[5] which had been essentially stable for months, to rise sharply in the first half of March 2020, hitting 80 points, an historically high figure if compared with the 60 points registered at the time of the collapse of the US financial services firm Lehman Brothers in 2008. However, the expansionary monetary policy stance adopted by the authorities, the economic support measures taken by governments, including increasing public spending, on the one hand and the progressive relaxation of the restrictions to contain the effects of the pandemic, on the other, facilitated a reduction of tensions on the financial markets during the third quarter of the year. This improvement was reflected in the decline in the VIX index, which stabilized at around 30 points between July and September, and between 20 and 30 points in the fourth quarter; as of March 2021, the index had returned to close to pre-pandemic levels.

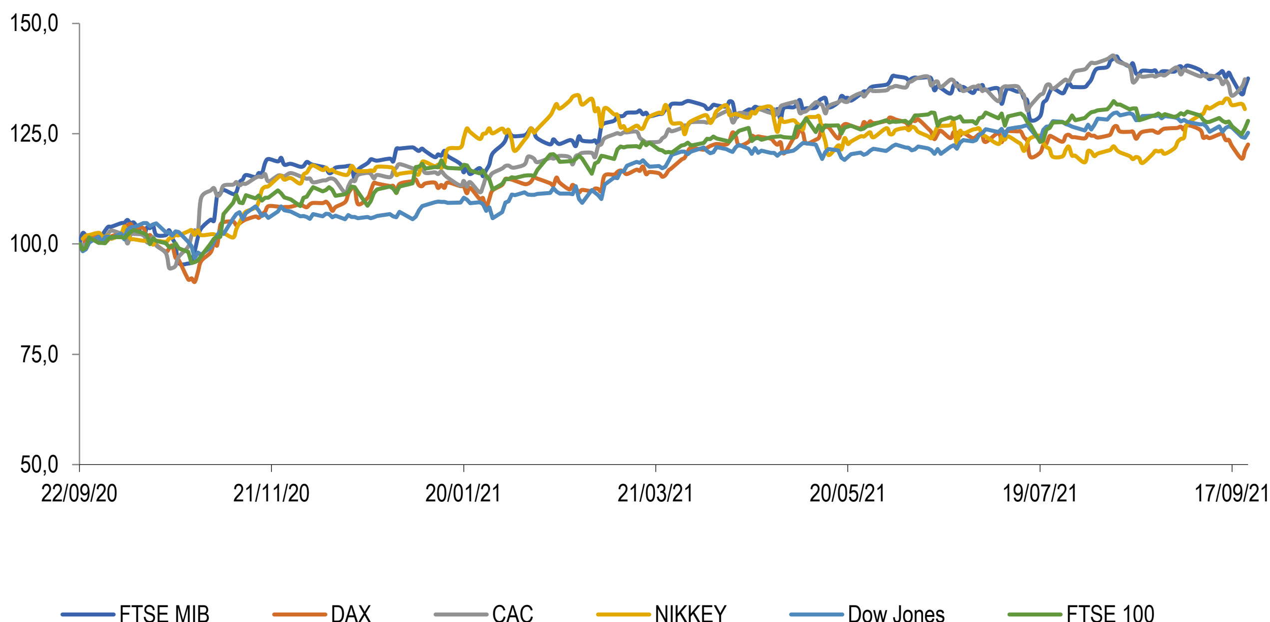


In particular, the spread of the pandemic initially sparked a massive rebalancing of portfolios by investors in search of more secure assets: the climate of uncertainty triggered a spiral in sales on equity markets, with a consequent decline in the main equity indices, which fell by more than 40% between February and March 2020. The monetary policy and fiscal measures adopted at international level in response to the crisis contributed to reversing the performance of the equity markets: during the summer, while the European markets remained essentially stationary, the US and Japanese (and Chinese) equity markets made a considerable recovery, with their indices rising above the points where they had started the year, thanks in part to the first signs of a possible economic recovery. In the autumn, fears of a second, stronger wave arriving earlier than expected, sent new tremors through the equity markets, which subsequently began again to grow, with an upward trend that was also confirmed in the early months of 2021 thanks in part to the gradual reduction in some risk factors perceived by the markets, such as, in particular, doubts concerning the effectiveness of vaccines, the US presidential elections and the outcome of the agreements regarding Brexit.

The early months of 2021 were characterized by a reallocation of investments in order to benefit from the economic recovery and the return of inflation. In the second quarter of the year, equity prices continued to rise, although in many cases at a slower pace than in the first months of the year. Equity prices were supported by corporate profits and, above all, by the future profit outlook, revised upwards thanks to the removal of restrictive measures. However, the risk that the rise in inflation may be persistent, prompting central banks to anticipate the scaling back of their stimulus measures, has been reflected in an increase in the premium demanded by investors to hold shares.

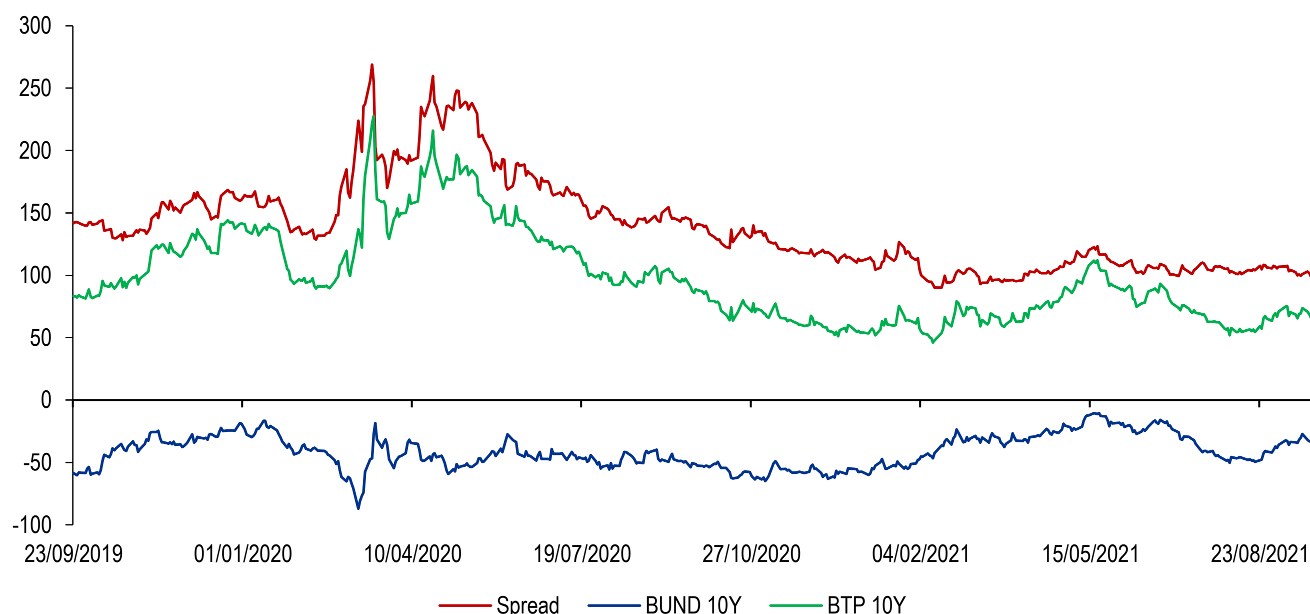
In this environment, the FTSE MIB index outperformed expectations, rising by around 13% in the first half of the year. This result was the synthesis of a clear improvement in economic prospects and the effects of a significant narrowing of the BTP-Bund spread.

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



Source: Facset. Baseline equal to 100

The monetary policy measures, and more generally economic policy, combined with the coordinated action of central banks and governments, facilitated the decline in interest rates and in sovereign spreads, in addition to the rise in share prices. With particular regard to Italy, after rising initially the BTP-Bund spread, which in mid-March was around 300 bps, decreased sharply, particularly since mid-May, following the expansionary monetary policy measures adopted by the ECB and the support measures introduced by the Italian government. Throughout the first half of 2021, the spread remained around 100 bps, a further signal of the recovery of the Italian economy and the lower risk perceived by the markets.



Developments in the Italian credit system

In the first half of this year, the improvement in economic conditions and the use of both government and private liquidity support measures supported the growth of lending to the private sector. Among the liquidity support measures, government-guaranteed loans saw business demand continuing to grow, while as of June the volume of loan repayment moratoriums still in place had declined significantly (from €132 billion at the end of 2020 to €55 billion in July), despite the possibility for companies to extend their moratorium (with applications to be submitted by mid-June) until the end of the year.

According to the most recent Bank of Italy statistics, at the end of last May credit to the non-financial private sector increased by 4.3% per cent year on year, but slowed in the last quarter (with February-May 2021 growth of 3.2%). Thanks in part to the strong demand for government-guaranteed loans under the measures implemented to counter the effects of the pandemic on the real economy, lending growth was especially rapid for non-financial companies (+4.6% on annual basis, driven by manufacturing which recorded an increase of 9%, compared with +3.4% for services and +1.9% for construction). The growth in lending to households was slower (+3.9% on an annual basis), with the increase involving both mortgage loans for home purchases and other forms of financing.

The measures to support access to credit introduced by the Government and the flexibility in the rules of the classification of loans indicated by the supervisory authorities have made it possible to limit the emergence of new impaired loans. In the first half of the year, the decline in the stock of gross bad loans continued, reaching 2.7% of the stock of outstanding loans in mid-2021 (3.2% in December 2020). This improvement in the risk indicators of the banking system is also attributable to the continuation of the disposal of bad loans, which this year are estimated to be in line with those carried out last year. The extension of liquidity support measures and active management by intermediaries of positions leaving the loan repayment moratoriums aimed at supporting businesses and households that are likely to recover could prevent the possible amplification of the impact of the expiry of the moratoriums (so-called cliff effects). However, supervisory authorities continue to devote considerable attention to credit risk in relation to the possible increase in the rate of credit deterioration, especially after the expiry of the loan moratorium measures adopted by national governments.

On the funding side, the continuing uncertainty engendered by the pandemic has led in recent months to a further increase in deposits from firms, which have increased by more than €100 billion compared with the level prior to the pandemic. In addition, the need for companies to have liquidity to covering the initial spending for the implementation of NGEU projects pending the arrival of European funds may have contributed to the increase in deposits with the banking system. The liquidity of consumer households also increased further as the propensity to save remains at values much higher than prior to the pandemic. This suggests a direct relationship between spending intentions and developments in the pandemic, which could ease with increasing vaccination coverage.

As indicated in Bank of Italy data, total funding by Italian banks at the end of June had increased by 2.2% on the previous year, reflecting significant growth in deposits (5.8% year on year), in particular those on current accounts of both firms and households (up 13.2% year on year), while foreign funding and bond issues declined. Thanks to these conditions, the Italian banking system does not need to increase funding: the funding gap remains negative thanks to monetary policy measures that have kept banks' liquidity high with inexpensive funds.

In the first quarter of 2021, the significant Italian banks reported a net profit of about €3 billion), a marked improvement compared with the loss posted at the beginning of 2020. This reflected the improvement in the ordinary components of performance, in particular an increase in revenues (commissions and trading), lower costs and a reduction in provisions for credit losses.[6] Conversely, net interest income decreased despite the recognition of the benefit of the TLTRO III. This reflected a decline in the margin on lending to customers, penalized by the reduction in rates. Forecasts indicate a modest improvement in traditional profitability this year, in addition to a more robust contribution from indirect funding thanks to the potential impetus of the increase in household savings, which could be directed towards investments in asset management products.

MEASURES TAKEN IN RESPONSE TO THE COVID-19 PANDEMIC

Measures taken by institutions in response to the COVID-19 pandemic

The first half of 2021 began with the launch of large-scale vaccination campaigns in Italy and the rest of Europe, which, despite having slowed in the early months of the year due to vaccine scarcity worldwide, have made it possible to contain new waves of the pandemic in the euro area. Although European governments have had to respond to a third wave of the COVID-19 pandemic, implementing new restrictions with consequent harm to the economies of the various countries, towards the end of the period vaccination campaigns underwent a general acceleration and the area experienced decline in new cases and, above all, deaths, allowing a return to socialization with a consequent economic recovery, especially in the service sector.

Despite the optimism generated by the effectiveness of vaccines, the path to a complete exit from the crisis remains exposed to uncertainties, obstacles and possible unforeseen events, in particular the persistence of opposition to vaccines among some segments of the population,

[6] The quarterly flow of net impairment losses on loans declined by more than half compared with the first quarter of 2020 (from €2.5 billion to €1 billion). the reduction involved all significant credit institutions, thereby reducing the cost of risk to especially low levels (38pb).

difficulties and delays in the administration of vaccines in many third-world countries and the emergence of new variants of the virus outside the euro area.

Governments and central banks are continuing to provide support to the real economy and the markets, and regulators are paying close attention to the need to contain any financial shocks and the consequent pro-cyclical effects that could potentially emerge when the measures to support the real economy (such as loan repayment moratoriums and government guarantees) come to an end, forcing economic operators to face possible liquidity crises. In addition, in the first six months of the year, the process of approving the recovery and resilience plans of the individual Member States by the European Commission continued.

The following provides a summary of the main measures implemented in the first half of the year.

Government, EU and national measures

At the end of January 2021, the European Commission adopted a fifth amendment to the Temporary Framework, extending its duration until December 31, 2021 (see the 2020 Annual Report for a detailed discussion of the measures envisaged under the Temporary Framework).

The amendment also modified the maximum per-company amounts of the aid measures provided for under the Framework, rising from €100 thousand to €225 thousand for companies active in the primary production of agricultural products, from €120 thousand to €270 thousand for companies active in the fishery and aquaculture sector and from €800 thousand to €1.8 million for companies active in all other sectors. At the same time, the maximum limit on grants intended to cover fixed costs not covered the revenues of companies in difficulty was also raised to €10 million. Finally, the Commission established that until December 31, 2022 Member States will be allowed to convert repayable instruments (guarantees, loans or repayable advances) into direct grants, provided that the conditions of the Temporary Framework are met.

As part of the Next Generation EU (NGEU) program, the National Recovery and Resilience Plan (NRRP) became operational after approval by the European Commission on June 22, 2021. Overall, the NRRP allocates a total of €205 billion of European resources between 2021 and 2026 under the two main NGEU programs: the Recovery and Resilience Facility (RRF, which amounts to €191.5 billion) and React-EU, in the amount of €13.5 billion. Support includes loans of €122.6 billion on very attractive terms compared with the issue of national debt, and €68.9 billion in non-repayable grants. The green transition and the digital transition are the priority objectives of the Plan and absorb 60% of the resources.

The approval of the NRRP was preceded by the issue of Decree Law 59 of May 6, 2021, no. 59 on “Urgent measures concerning the Complementary Fund to the National Recovery and Resilience Plan and other urgent measures for investments”. The Decree, ratified with Law 1 of July 1, 2021, published in the Official Journal of July 6, 2021, provides for the approval of a National Investment Plan, aimed at supplementing the NRRP interventions with national resources totaling €30.1 billion for the years from 2021 to 2026 and allots the national resources envisaged under the Plan, identifying the programs and measures and establishing the distribution of resources among them by year. The competent government entity is specified for each measure.

The regulatory framework that will enable the full implementation of the NRRP has been completed with the adoption of two additional Government measures: Decree Law 77/2021 concerning the governance of the NRRP and the simplification of administrative procedures and Decree Law 80/2021 introducing urgent measures to strengthen the administrative capacity of government. The latter, in particular, governs specific methods to accelerate the selection procedures that can be used to recruit temporary staff and grant collaboration contracts by the government entities responsible for the projects envisaged in the National Recovery and Resilience Plan.

On August 13, the European Union disbursed pre-financing of €24.9 billion to Italy, with the funds going into the national revolving fund already established with the 2021 Budget Act to provide the liquidity necessary for the start of planned investments, pending the achievement of the objectives and milestones to enable disbursement of the planned half-yearly reimbursements. These objectives have been formalized in 526 specific steps in a decree issued by the Ministry for the Economy and Finance, which attributes responsibility for the 256 items of expenditure relating to the €191.5 billion of RRF funds (of which €124.5 billion for new projects) to the various ministries. Given the type of interventions envisaged, about half of the spending will be handled by three ministries: Infrastructure (21%), Ecological Transition (18%) and Economic Development (10%).

The schedule indicated in the Plan already provides for the first goals to be achieved by the end of 2021, mainly relating to the intermediate steps of the reforms necessary for the implementation of the Plan. A number of steps have already been taken, in addition to the provisions mentioned earlier regarding the approval of reforms of government hiring and the definition of the governance of the Plan. These include actions to simplify administrative procedures and the procurement system and the reform of the justice system. Some of the funded interventions are already operational, such as the 4.0 incentives, the contribution relief for youth and female employment, the tax credit (super bonus) for energy efficiency projects in homes.

Monetary policy measures adopted by the ECB

With regard to the Pandemic Emergency Purchase Programme (PEPP), at its meeting on January 21, 2021, the Governing Council of the ECB specified that if favorable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP (€1,850 billion until at least the end of March 2022), the program envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favorable financing conditions to help counter the negative pandemic shock to the

path of inflation.

At its meeting on March 11, 2021, the Governing Council left interest rates and other measures unchanged and, based on a joint assessment of financing conditions and the inflation outlook, said that it expects purchases under the PEPP over the next quarter (second quarter of 2021) to be conducted at a significantly higher pace than during the first few months of the year. In general, the Governing Council will conduct purchases in a flexible manner based on market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation.

At its next meeting on April 22, 2021, the Governing Council confirmed that it expects that purchases under the PEPP in the current quarter (Q2-21) will continue at a significantly higher pace than during the first few months of the year. The incoming information confirmed the joint assessment of financing conditions and inflation outlook carried out at the March monetary policy meeting.

On July 8, the Governing Council of the ECB published a statement outlining its new monetary policy strategy, which represents the outcome of a thorough review launched in January 2020, which had been slowed by the outbreak of the pandemic. The new strategy takes effect from the meeting on July 22 and will remain in effect until at least 2025, when it will be reviewed. The main change is represented by the new definition of the inflation target: the ECB's mission to maintain price stability by pursuing a symmetrical inflation target of 2% in the medium term has been confirmed. Therefore, moderate or temporary fluctuations both above and below the target will be tolerated, while strong and persistent deviations will not be tolerated for the medium term (the previous wording indicated a target of “below but close to 2%”).

The benchmark for the measurement of inflation remains the HICP (consumer price inflation): for a more precise calculation, the costs related to owner-occupied housing, considered key in the basket of items relevant to households, will also be gradually incorporated.

The main monetary policy tool will continue to be the ECB's set of policy rates, but forward guidance, asset purchases and longer-term refinancing operations remain an integral part of the ECB's toolbox, to be used where appropriate. The ECB will also modify its approach to communication, with a new, more concise narrative; in general, communication will be more accessible and with greater interaction with the public.

With an ancillary document, the Governing Council also approved an ambitious action plan related to climate change, with which the ECB is firmly committed to:

- comprehensively incorporating climate factors in its monetary policy assessments;
- expanding its analytical capacity in terms of macroeconomic models, statistics and monetary policy with reference to climate change;
- adapting the design of its monetary policy operational framework in relation to disclosures, risk assessment, corporate sector asset purchases and the collateral framework;
- implementing the action plan in line with the progress achieved in EU policies and initiatives in terms of disclosures and communication on environmental sustainability.

At its meeting on July 22, the Governing Council added, with regard to the new monetary policy strategy, that the new forward guidance on rates will rest on three criteria ("three legs"):

1. inflation will reach 2% well ahead of the three-year projection horizon;
2. that level will be durable for the rest of the three-year period;
3. the ECB judges that realized progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at 2% over the medium term.

All of this may involve a transitional period in which inflation is moderately above target.

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

Italian government action to support the economy continued in the first half of 2021 as well, responding to the persistence of the pandemic and the consequent restrictions on the movement of people.

On March 19, 2021, the Council of Ministers approved Decree Law 41/2021 (the “Support Decree”) containing “Urgent measures to support firms and economic operators, employment, health and local government services, linked to the COVID-19 emergency” with the goal of reinforcing the tools for combatting the COVID-19 pandemic and of limiting the social and economic impact of the prevention measures enacted. The decree allocated around €32 billion,[7] calibrated based on the timing and intensity of the protection of the beneficiary of the support measures.

The main areas of intervention are:

[7] Around €17 billion is earmarked for firms and to support economic activity, just over €6 billion for programs to help workers and households, over €5 billon for the national health and safety services, about €3 billion for local governments, education and research and for other minor measures.

- support to firms and the service industry. It provides for a non-repayable grant for businesses with revenue of up to €10 million and for professionals who between 2019 and 2020 lost at least 30% of their turnover, calculated using the monthly average. There are five levels of relief based on 2019 turnover, calculated as a percentage of the average monthly loss;
- employment and combatting poverty. In this area, the decree provides for extending the freeze on terminations until June 30, 2021, extends the wage supplementation scheme and contains additional financing and support allowances to bolster employment and job training;
- health and safety. Among its main health and safety measures, the decree provides further funding for purchasing vaccines and other anti-COVID drugs and contains specific support measures for medical and sanitation personnel;
- local governments. The decree sets out support for local governments to help them face the decline in revenue as a result of the pandemic (around €1 billion for municipalities and metropolitan areas for 2021) and reimburses the regional and autonomous provincial governments for healthcare costs incurred in 2020;
- sector-based measures. Other measures targeted at specific sectors include: (i) financing for the funds envisaged for the culture, theater, cinema and audiovisual sectors, (ii) support for remote learning and (iii) the establishment of funds to support the hardest hit economic categories and large firms in a state of crisis owing to the pandemic, excluding the banking and insurance sector.

On May 25, Decree Law 73 (the "Second Support Decree") was published in the *Gazzetta Ufficiale.* It was subsequently ratified into law by Parliament on July 23, 2021 (Law 106). With regard to the banking sector, Title 2 of the decree contains measures governing access to credit and liquidity for companies, including:

- *business credit support.* The decree extends the government guarantees granted through SACE and the Central Guarantee Fund (CGF) to December 31, 2021, providing for a number of changes that will take effect from July 1, 2021. In particular, the percentage of guarantee coverage issued through the CGF has been lowered from 90% to 80% and from 100% to 90% for loans up to €30 thousand, to which a different interest rate from that initially established may be applied (the Rendistato rate + 0.20%). The expiry of loan repayment moratoriums for SMEs has also been extended to December 31, 2021, although companies had to notify their intention to take advantage of the extension by June 15. Furthermore, the decree limited the moratorium to the principal amount of the loan only.
- *credit support for households.* To encourage the purchase of a primary residence by young people (under 36) with an ISEE (equivalent economic status indicator) of less than €40 thousand, two measures have been introduced that will remain in effect until June 30, 2022. More specifically, the guarantee coverage granted by the Fund has been raised to 80% for the primary residence, while beneficiaries are exempted from payment of registration fees, land registry and mortgage fees and the tax on mortgage loans (0.25% of the amount financed). Furthermore, the payment moratorium on primary residence mortgages (through the Gasparrini Fund) has been extended to December 31, 2021.
- *financial support for businesses.* The decree establishes that capitalization measures for larger firms (with turnover exceeding €50 million) can be carried out by December 31, 2021 through the so-called "Capital Revival Fund" (established at Cassa Depositi e Prestiti, as provided for by Article 27 of the "Revival Decree"). In addition, local authorities can again apply to receive liquidity to pay certain, determinable, enforceable debts.
- *support for business combinations.* The decree permits the transformation of deferred tax assets (DTAs) even for mergers that take place during 2022 but which were approved December 31, 2021. Compared with the 2021 Budget Act, the merger or acquisition must also be approved by the board of directors of the merged company, thus encouraging non-hostile deals.[8]
- *support for the disposal of NPLs.* The rule contained in the "Cure Italy Decree", which expired at the end of 2020, has been extended to December 31, 2021. Under the provision, companies can transform deferred tax assets arising in respect of tax losses into tax credits even if not recognized in the financial statements in cases where a company disposes of NPLs for consideration of up to a maximum of €2 billion.
- *measures concerning mutual banks.* The legislation ratifying the decree into law included rules governing the procedures for heirs to take over the position of a deceased shareholder of a mutual bank and the general criteria for determining the value of shares in the event of redemption in all cases of dissolution of the shareholder relationship. In addition, the measure establishes that even cooperative banks can issue shares under Article 150-ter of the Consolidated Banking Act and that the shareholders owning such shares may possibly hold them in an amount exceeding the limit of 1% of capital (representing an exception of the concept of one shareholder, one vote).

Other regulatory and supervisory measures

There are no significant changes in the first quarter of 2021 in relation to regulatory interventions. In referring to what is indicated in the 2020

[8] Since to benefit from the tax relief, an agreement must be reached between the two boards of directors, who will then have one year to obtain the approval of the members or shareholders and conclude the merger or acquisition.

budget, it is recalled that during the first half of 2021 some measures contained in the rules and regulations introduced in previous years were applied. Particularly:

- from January 1, 2021, the new EBA definition of default took effect as detailed in the 2016 guidelines (which contain the specifications for the application of the definition of default pursuant to Article 178 of the CRR) and in the Delegated Regulation of the EU Commission (171/2018 governing materiality thresholds). The new rules impact NPL classification in the areas of speed of response (refining UTP detection methods, introducing greater automated mechanisms), objectivity (specifying non-discretionary absolute and relative materiality thresholds differentiated for the retail and corporate segments) and prudence (introducing specific rules specific for the restoration of performing status, the so-called "probation period");
- from June 27, 2021, a number of measures contained in Regulation (EU) 2019/876 (CRR2) took effect. In particular, the measures introduced: 1) a mandatory minimum leverage ratio of 3% of Tier 1 capital; 2) an NSFR, i.e. a 12-month structural liquidity indicator calculated as the ratio between the available amount of stable funding and the required amount of stable funding, which must be greater than 100% and be reported on a quarterly basis; 3) a standard method for counterparty risk (the SA-CCR) which concerns the calculation of weighted assets for banks that hold derivatives with a total notional amount exceeding €100 million; and 4) a revision of the prudential treatment of exposures to collective investment undertakings, providing for the application of a weighting coefficient of 1,250% (fallback approach) in the event a bank is unable to apply the mandate-based approach or the look-through approach;
- from June 30, 2021, the EBA guidelines on loan origination and monitoring published in May 2020 took effect. They introduce best practices for management and monitoring of credit risk through the use of sound and prudent standards. In particular, the guidelines focus on the following topics: governance requirements for granting and monitoring credit, loan origination procedures, pricing (which apply to loans originated after June 30, 2021), valuation of immovable and movable property (if this evaluation/monitoring activity is performed after June 30, 2021), and the monitoring framework (which applies to all credit facilities issued after June 30, 2021). Banks will also benefit from two transitional provisions: 1) the application of the guidelines to existing credit facilities that require renegotiation or contractual changes with borrowers will apply from June 30, 2022; and 2) missing data and information may be collected until June 30, 2024 so that as of that date the requirements for monitoring the outstanding loan stock may be applied in full.

Among the supervisory measures introduced after the end of the first half of the year, the ECB issued a Recommendation on July 23, 2021 announcing its decision not to extend beyond September 30, 2021 its previous recommendation that all banks limit the distribution of dividends. Accordingly, after this date, the prudential practice of discussing dividend distribution or share buyback plans with each bank will be reinstated in the context of the normal supervisory cycle.

Communications issued by authorities and standard setters concerning accounting issues

The monitoring and proactive management of credit risk continue to represent the main issue of attention for financial intermediaries as regards the classification of credit exposures and the consequent assessment of those exposures, in line with the recommendations and measures issued by international authorities, which expressed themselves on the issue a number of times during 2020, underscoring the importance of the attention that banks will have to dedicate to managing credit risk even as we gradually emerge from the state of emergency so as to promptly identify all possible signs of deterioration in their exposures.

That noted, no further significant regulatory measures were issued by regulators or standard setters in the first half of 2021. Their position was already expressed in 2020, delineating a framework that remains valid. For more information, please see the discussion in the 2020 Annual Report.

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

The Iccrea Cooperative Banking Group (ICBG), whose establishment was completed with its registration in the Register of Banking Groups on March 4, 2019, has its origin and foundation in the Cohesion Contract (pursuant to Article 37-bis of the Consolidated Banking Act) between the Parent Company, Iccrea Banca (the central body), and the affiliated mutual banks (affiliated banks), through which the latter 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 (risk-based approach).

The ICBG Cohesion Contract sets out the respective and reciprocal rights and duties of the members of the Iccrea Cooperative Banking Group and acknowledges the set of management and coordination powers attributed to the Parent Company. More specifically, these powers are exercised in matters and areas such as corporate governance, strategic planning, risk governance, the internal control system, information systems and the joint and several Guarantee Scheme. In addition to containing the "general" powers of management and coordination of the Group and its subsidiaries, the Cohesion Contract also governs the specific powers necessary to ensure the unity and effectiveness of the management and control systems at the consolidated level, compliance with prudential requirements and reporting obligations applicable to the Group and its members as well as other provisions governing banking and financial matters. These powers are accompanied by those specifically related to the corporate governance of the affiliated banks, with particular regard to the composition and appointment of their corporate bodies. This has been accomplished through the provisions of the standard articles of association of the affiliated banks and specific regulations for elections and shareholders' meetings of the Group. These govern the cases in which the Parent Company may justifiably appoint, oppose the appointment or remove one or more members, up to a majority, of the management and oversight bodies of the affiliated banks, and regulate the associated procedures. These powers therefore pose an exception to the rule - sanctioned and maintained by the Consolidated Banking Act for the mutual banks - that "the appointment of the members of the management and oversight bodies is the responsibility of the competent corporate bodies".

The Parent Company is required to exercise its powers of management and coordination with the objective of ensuring the stability of the Group and all its members in full compliance with the principle of sound and prudent management, while supporting the affiliated banks in their achievement of the objectives established in their articles of the association and promoting the cooperative spirit and mutualistic nature of the affiliated banks and of the Group as a whole.

In this regard, 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 support (capital or liquidity) provided to 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 carried out by the Parent Company alone, drawing on the financial resources made available by the participants in execution of the Guarantee Agreement. Support actions may include:

- capitalization measures (including the subscription of CET1-eligible 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 (RAFs);
- liquidity support measures (e.g. financing operations of appropriately established term or securities lending) using ex ante funds or the Ex Post Quota of the readily available funds by way of special-purpose lines of credit;
- any other form of intervention deemed appropriate by the Parent Company.

The RAFs represent readily available resources that each participant provides in order to ensure the ready availability of the funds needed to carry out guarantee interventions. They are composed 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. The guarantee obligation assumed by each participating entity is commensurate with their risk-weighted assets and kept within the limits of any capital in excess of their individual capital requirements, without prejudice to compliance with said requirements.

At least once a year, the Parent Company conducts 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. It also serves to calibrate the thresholds of the early warning system.

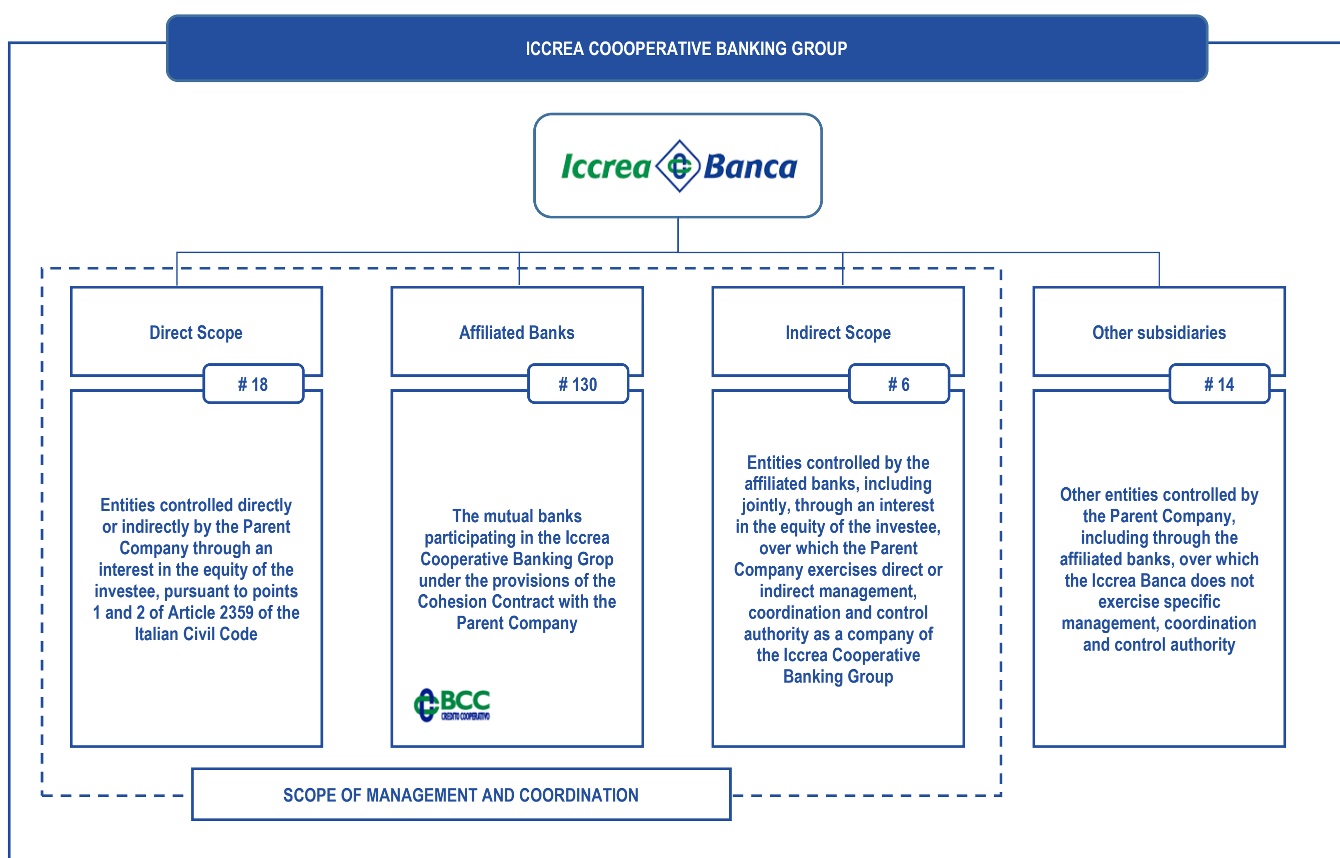
In view of the foregoing, the Iccrea Cooperative Banking Group is a group of entities affiliated with a central body pursuant to Article 10 of Regulation (EU) no. 575/2013 (the CRR), with the simultaneous presence of a mutual guarantee system, given that:

- the objectives of the central body and the affiliated institutions are the same;
- the solvency and liquidity of all the affiliated institutions are monitored together on the basis of consolidated accounts.

The organizational structure of the Iccrea Cooperative Banking Group

As summarized in the following chart, at June 30, 2021, the ICBG is structured as follows:

- the Parent Company, Iccrea Banca SpA, which plays a management and coordination role for the Group and for interacting with the supervisory authorities;
- 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.



Organizational structure of the Parent Company

The organizational structure of the Parent Company Iccrea Banca is based on the operating model and the strategic-operational activities required by the relevant legislation and the Cohesion Contract, which can be summarized in the macro-areas of: (i) management, coordination, policy and control; (ii) provision of services to Affiliated Banks and Direct Perimeter Companies; and (iii) carrying out the activities of the Parent Company.

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

During the first half of 2021, additional organizational and operational initiatives were undertaken to enhance the efficiency of Group governance, simplify and streamline models and processes and create greater specialization by area of competence.

The main measures include:

- due to the transfer of the lending operations of Iccrea BancaImpresa (discussed further below) to the Parent Company, the operational and organizational model for corporate financing activities (ordinary lending, special credit, international and extraordinary corporate finance). The new model provides, among other things, for:
  - the centralization with the Parent Company, in particular with the CBO area, of product development for corporate customers by both Iccrea Banca and the subsidiary Iccrea BancaImpresa, strengthening the specialized development of particular technical forms of credit and customer segments (structured finance, international, subsidized, agricultural, tourism, etc.);
  - model and process synergies and efficiencies within the typical phases of the lending process, in particular loan origination, monitoring and management of non-performing positions (with the centralization of certain lease activities at the Parent Company).
- the revision of the Parent Company's operating and service model in respect of the affiliated banks, providing for the involvement and intermediation of the territorial units (units located within an area reporting directly to senior management). More specifically, the initiative revised the model based on units at local structures, which had performed a liaison role between the Parent Company and the affiliated banks, handling certain services[9] as intermediaries with the competent head office structures. This was replaced by a "direct model", which provides for the head office units to maintain direct contact with the affiliated banks for the execution of the related service processes, enhancing their effectiveness and efficiency. In connection with this change, the relationship with the affiliated banks and the operational model of the Territorial Market Areas were revised in order to create a single interface for the mutual banks that acts as a "control room" on broader transformational issues (such as, for example, the Branches Plan);
- the completion of the strengthening of the territorial model with the revision of the commercial operating model of the Parent Company, with the reallocation of responsibilities for commercial supervision of local markets from the Commercial Divisions (Retail and Corporate) to the Territorial Market Areas. The newly defined Territorial Market Areas, to which the Business Centers that previously reported to the Corporate Division have also been relocated, are therefore also responsible for the loan origination activities that were previously handled by the Business Division itself;
- the updating of the Parent Company's credit system in order to simplify and rationalize certain delegated powers, also with a view to increasing the involvement of the operating units and streamlining the collegial bodies, all consistent the priority need to safeguard creditworthiness and improve the definition of origination responsibilities in the various stages of the lending process;
- the revision of the organizational structure of the e-money sector in order to strengthen the development/innovation of the services provided to customers and to create a center of competence for the fraud prevention and management system for the related products and services;
- the creation of an organizational unit responsible for supporting the owner functions of the Parent Company and the companies within the direct scope in the redesign of their operating models and the related services they provide, identifying the activities with greater value and/or profitability, reducing operational complexity and lowering the associated costs;
- in line with the model already adopted by the other oversight functions and the model already in place for relations with the affiliated banks, the centralization of the Risk Management function with the Parent Company was completed, with the provision of services on an outsourcing basis to the rest of the Group, including the companies within the direct scope. The CRO area of the Parent Company was also affected by organizational measures to further strengthen the governance of the areas for which it is responsible. These include interventions to centralize responsibility for all Risk Governance and Risk Strategy issues for the Group within a single organizational unit, reporting directly to the CRO area itself, and to achieve greater integration in the Risk Management area between the head office units and the local Risk Managers;

[9] The units of the territorial offices specifically handled service activities relating to the following areas: Planning and Management Control, Administration and Budget, Taxation, General Counsel, Human Resources and Organization.

- the deployment of additional organizational initiatives as part of the ongoing ordinary evolution that characterizes the Parent Company, both in response to developments in our business and mandatory compliance modifications (e.g. measures necessary to ensure full compliance with the regulatory framework) and to ensure the continuous improvement of models and processes with a view to achieving ever greater effectiveness and efficiency. These included the following:
  - expansion of the scope of responsibility of the Tax function with the assignment of operational responsibilities related to the acquisition, monitoring and management of tax credits (the government's so-called eco-bonus incentive program);
  - consolidation of the organizational and operational model connected with the governance of the obligations for the Resolution Plan, in compliance with the rules established by the applicable European legislation;
  - consolidation of the Group Product Management model and simplification of governance, for initiatives with a low degree of complexity/risk and/or relating to the elimination of products;
  - measures to reducing the number of organizational levels and achieve savings through the integration of units performing contiguous activities;
  - updating of the functional reporting of the companies within the direct scope to the various areas of the Parent Company.

The current organizational model of the Parent Company envisages:

- second and third-level corporate control functions, which report directly to the Board of Directors and are organized into the following areas: Chief Audit Executive (CAE); Chief Risk Officer (CRO); Chief Compliance Officer (CCO), which incorporates the Data Protection Officer function; 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. The corporate control functions are fully centralized and operate on an outsourcing basis for all Group companies (affiliated banks and companies within the direct scope that are required to establish corporate control functions). For further details, please see the more complete discussion concerning the Internal Control System.
- areas that report directly to the General Manager, represented by the following main areas of responsibility:
  - Chief Financial Officer (CFO) Area;
  - Credit and Subsidiaries Area;
  - Chief Operating Officer (COO) Area;
  - Chief Business Officer (CBO) Area;
  - Chief Information Officer (CIO) Area.

During the first half of 2021, work continued on defining the Group's internal regulatory framework, with changes in the Group's primary internal rules governing the following main macro-areas:

- management of money laundering and terrorist financing risk;
- management of sustainability risk in relation to investment services (ESG);
- market risk management;
- management of conflicts of interest in relation to investment services;
- management of suspicious transactions in relation to market abuse regulations;
- the Early Warning System and Guarantee Scheme;
- credit (general rules, high risk exposures, management of affiliated bank NPLs, valuation of impaired positions, etc.);
- corporate governance (start-up training and updating of officers, remuneration and reimbursement of expenses for directors and members of Board of Auditors, election procedures at the affiliated banks);
- coordination of the corporate control functions and reporting flows to the corporate bodies/Board committees;
- other areas (including payment services, incident management, product management and impairment model).

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

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

In addition to a business model based on this relationship, the difference between the mutual banks and their more traditional brethren is

explicated in the Consolidated Banking Act (Articles 33 et seq. of the Consolidated Banking Act, with significant amendments introduced by the Reform Law 49/2016).

More specifically, primary legislation (Articles 33-37 of the Consolidated Banking Act, as amended by the legislation governing cooperative banking groups) requires the following of mutual banks: (i) that they be established as limited-liability, joint-stock cooperatives (*società cooperativa per azioni a responsabilità limitata*); (ii) that they have no fewer than 500 shareholders; (iii) that their shareholders be residents of or have operations, on an ongoing basis, in the community in which the bank operates; (iv) that every shareholder have one vote, regardless of the number of shares held; (v) that no shareholder may own shares with a total nominal value of greater than €100,000; and (vi) at least 70% of annual net profits be allocated to the legal reserve (3% of annual net profits is allocated to mutualistic 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,[10] states that no less than 95% of all business shall be conducted within the bank's territory,[11] and at least 50% of this business shall be in favor of shareholders,[12] such that the funding of the bank shall, in essence, go to supporting and financing the economic growth of the traditional area of operations. The aforementioned rules for the preservation of mutuality and localism were confirmed by the reform of the sector, whose objective – as underscored by the Bank of Italy - was solely to "remove the regulatory and operational constraints typical of entities established as cooperatives - which could have hindered rapid recapitalization, including through access to the capital market, in case of need - and the related diseconomies associated with the small size of such entities" (Circular no. 285, Part Three, Chapter 5, Section 1, sub-section 1).

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

As discussed in more detail below, banking activities are sharply focused on traditional forms of credit, such as mortgage loans and commercial loans, in order to best meet the financial needs of customers. Direct funding, too, is made up of traditional banking products, such as deposit accounts, repos, current accounts, savings deposits and bonds. Indirect funding and asset management mainly feature the offer of products and services designed to minimize any reputational risk.

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

Banking activities are completed with a wide range of payment and collections services, online banking, and insurance products. It also features treasury services for municipal governments, hospitals, and other public bodies and organizations. All these operational characteristics make the affiliated banks leading partners in supporting and developing the real economy of the territories in which they operate, thanks to the specific range of banking products and services they offer, which enables them to maintain the stability of savings over the years and to provide constant access to credit for 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. To protect itself against potential adverse impacts, the Iccrea Group does not finance certain business segments deemed "controversial" under the Code of Ethics and the credit policy. With regard to risks associated with the Corporate segment, the risk of financing environmentally or socially harmful activities is managed with internal rules governing specific lending activities. The credit policy specifies the activities or sectors that, although legal, cannot be financed (except in exceptional circumstances governed by Group policies) by the boards of directors of the companies within the direct scope and the affiliated banks or the persons/decision-making bodies so delegated.

More specifically, these sectors include the manufacture, distribution and marketing of weapons (with the exception of weapons intended for sporting or recreational purposes), equipment and systems usable exclusively for war, the manufacture, distribution and marketing of betting equipment, video-poker machines, slot machines etc., the establishment and operation of gaming and betting rooms and all sectors related to pornography (sex shops, adult publications, etc.). Any exceptions to these restrictions must be justified appropriately on the basis of their indispensable necessity (i.e. the importance of the initiative for local economy, the moral integrity of the persons involved, the prevalence of

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[10] 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.

[11] Known as the limit on out-of-area operations. The limit does not include exposures to or secured by: (i) central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy; (ii) the parent company and other companies belonging to a cooperative banking group , including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement; and (iii) guarantee systems established between mutual banks.

[12] Known as the prevalent operations rule, for which exposures to or secured by the following entities are treated as comparable to exposures to shareholders: (i) central government entities of the Italian Republic or other euro-area countries, the European Central Bank and the Bank of Italy; (ii) the parent company and other companies belonging to a mutual banking group, including commitments and guarantees undertaken in execution of the joint and several Guarantee Agreement; and (iii) guarantee systems established between mutual banks.

one activity of the company over another not eligible for financing. etc.).

An important role is also played by business microcredit, governed by Article 111 et seq. of the Consolidated Banking Act and promoted as a tool of social development and financial inclusion. Microcredit provides access to credit for young entrepreneurs with great ideas and a spirit of initiative but little or no collateral. For these young entrepreneurs, the lack of a credit history, collateral, or personal guarantees makes it difficult, if not impossible, to access credit despite having a good idea for a new business.

The signing of a framework agreement between Iccrea and the National Microcredit Agency is intended to increase the number of mutual banks operating in the particular segment and to increase the already notable volume of business in this area. In 2020, one microcredit transaction in five in Italy (guaranteed by a specific section of the Guarantee Fund for SMEs) was carried out by the mutual banks belonging to the Iccrea Cooperative Banking Group. With the agreement, the mutual banks will be able to draw on the support of tutors registered in the mandatory national list and affiliated with the institution to offer of auxiliary assistance and monitoring services connected with the financing.

Furthermore, for mutual banks that do not intend to provide microcredit directly but who still want to activate tools to stimulate the creation of new micro enterprises to the benefit of the territories in which they operate, work is being finalized on a memorandum of understanding with a specialized operator to which customers potentially eligible for entrepreneurial microcredit can be directed.

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

The signing of a framework agreement - formalized in the first half of the year - between Iccrea and the Giovanni Paolo II National Anti-usury Council, a voluntary association of anti-usury foundations and associations, will make it possible to coordinate efforts in an area of the financial world closely aligned with the founding values of the mutual banks, progressively expand the number of mutual banks that operate with conviction in this area and expand the financial awareness of the mutual banks' customers, with the aim of preventing the incursion of usury into the legitimate financial industry.

The contribution channeled to local communities through donations and other charitable activities is significant, preferentially involving:

- charity, solidarity and public interest activities, with particular regard to the activities and projects of associations, entities, institutions and private organizations aimed at assisting minors and the elderly in need; the sick and disabled; people affected by forms of social exclusion and hardship; vulnerable segments of the population; the promotion of sports; civil protection; and development of the territory and local resources;
- education, research and culture for young people and the elderly, with an emphasis on cooperation and 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: (i) historical and literary studies and initiatives, with a particular emphasis on the traditions and customs of the local communities; and (ii) exhibits and other events tied to local culture; restoration and development of local cultural landmarks.

The mission of supporting local communities is further underscored by the level of participation in the credit and philanthropic support measures taken in response to the COVID-19 emergency.

The mutual bank mission – Sustainability and environmental protection

The concept of sustainability represents the natural evolution of the DNA of the mutual banks. Their cooperative and mutualistic roots has prompted the affiliated banks and the Group as a whole to pursue the sustainable development goals of the UN 2030 Agenda (SDGs) in their territories.

Considering sustainability an opportunity to reaffirm the principles and values of cooperative credit, attention to the community, people and the local economy, respecting the environment and pursuing the goals of Article 2 of the articles of association, since its formation the Group has invested in the construction of a sustainability governance system, understood as the integration of the three ESG factors (Environmental, Social and Governance) into operations, strategy and risk management, equipping itself with a model based on specific centers of accountability.

During the first half of 2021, the Group's activities in this area focused on four main projects aimed at ensuring the pursuit of sustainability objectives.

First, a review was begun of the Group Sustainability Plan approved in March 2020 in order to adapt its objectives and targets to the new socio-economic context, which has been heavily impacted by the COVID-19 pandemic. Work is therefore under way to reorganize and rationalize the objectives of the Plan with the aim of identifying - and, consequently, confirming as objectives of the 2021 Sustainability Plan - the

purposes that in consideration of the new reference scenario have the greatest relevance and coherence, providing for a number of modest amendments to reshape the original objectives.

Through the Sustainability Plan, the Iccrea Group implements the main legislation governing sustainable finance, gives voice to the principle of integral ecology expressed in the Encyclical Laudato Si' and contributes to a large part of the Sustainable Development Goals of the UN 2030 Agenda, thereby strengthening the role of the Group in supporting local communities. The updated version of the Sustainability Plan will be presented for approval of the Parent Company's Board of Directors in the second half of 2021.

In the early months of 2021, the PEGASO project (Planning and Analytical Management of Sustainability) was launched. It is aimed at creating, in the medium term, a tool for planning, managing and monitoring the Group's sustainability objectives at the consolidated and individual levels.

The first half of 2021 also saw the launch (responding in part to specific requests from the European Central Bank) of a longer-term project aimed at the full integration of ESG (environmental, social and governance) factors in governance systems, operational processes and risk management, as specifically defined in the ECB's Guide on climate-related and environmental risks published in November 2020, taking due account of the findings of the climate stress test and the actions under way with regard to the distribution strategy. The project involves the realization of a series of activities/deliverables defined with a view to achieving the 13 supervisory expectations referred to in the ECB Guide. It envisages numerous measures of a strategic, organizational and operational nature with important repercussions in the overall governance and risk management system, with particular attention in this first phase to credit risk. All in order to take account of climate and environmental factors for the transition to a sustainable economy. Among other things, the project provides for the implementation of a Group Sustainability Policy that will incorporate – through thematic attachments - the Group ESG Policies already implemented and adopted by Group companies (for example that governing the provision of investment services).

As part of the definition of the above project, specific analyses were also conducted to determine the positioning of the Group with respect to climate risk. In this context, an initial mapping was performed to identify climate transition risks within the credit and investment portfolio and physical climate risks within the credit and guarantee portfolio. This initial exercise, which was also accompanied by a benchmark analysis, found that the Group was substantially in line with the rest of the national banking system.

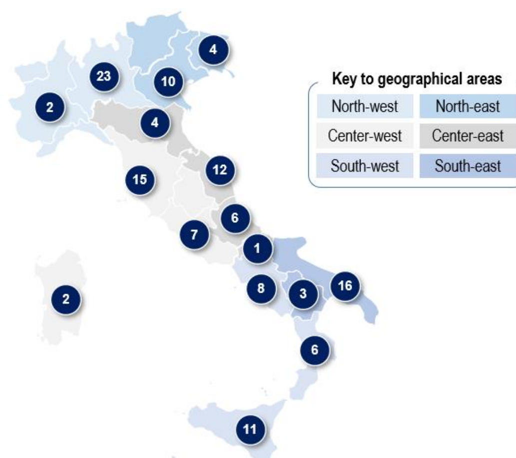
Finally, during the first half of 2021 the Parent Company intensified its "sustainability communication" efforts, anticipating the recent recommendations of the EBA on the management and supervision of ESG risks and ramping up its action to disseminate a broad corporate culture on ESG issues and their strategic importance. In this context, the sustainability section of the Group website was developed further, while specific induction activities were carried out for the Board of Directors of the Parent Company and a training program on Sustainable Finance was launched: between June 2021 and April 2022, it will involve most of the directors of the mutual banks.

THE GROUP'S ORGANIZATION AND BRANCH NETWORK

The network of the 130 mutual banks of the Group and of Banca Sviluppo is uniform throughout the country (34% in southern Italy, 36% in central Italy, and 30% in the north) as a result of our mission to support the local communities. The only regions in which no Group banks are headquartered are Valle d'Aosta, Trentino–Alto Adige, Liguria and Umbria (although the Group does have branches in the latter three regions).

In the first half of 2021, the number of affiliated banks declined from 132 to 130 as a result of 2 mergers involving 4 banks:

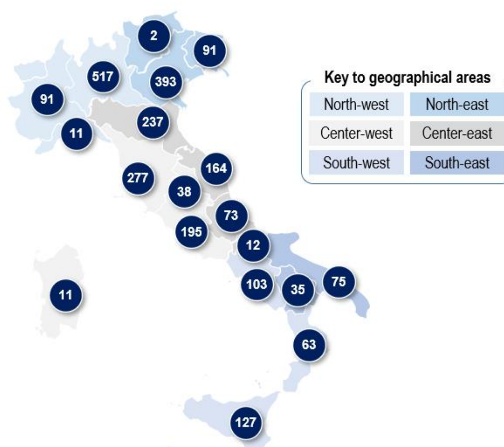
- the merger of BCC di Buonabitacolo into Banca del Cilento, di Sassano e Vallo di Diano e della Lucania (which resulted in the creation of Banca 2021 Credito Cooperativo del Cilento, Vallo di Diano e della Lucania);
- the merger of Banca di Verona into Banca San Giorgio Quinto Valle Agno (which resulted in the creation of Banca di Verona e Vicenza).



Structure of the Group's network of bank branches

The ICBG is Italy's third-largest banking group in terms of number of branches (with 2,515 branches operated by 130 mutual banks and by Banca Sviluppo, with 4 branches), 57% of which are located in the Italian regions of Lombardy, Veneto, Tuscany and Emilia-Romagna for a nationwide branch market share of 11.3%.

In the first half of 2021, the affiliated bank branch network saw the closure of 26 branches, partially offset by the opening of new branches in locations with greater potential for business development. The result of these changes was a net reduction of 14 branches compared with December 2020. The developments in the network, albeit with a lesser impact from rationalization than that recorded by the rest of the national banking system, must in any event be framed within the specific characteristics of the affiliates, for which a local presence is one of the founding assets of the relationship with the shareholder-customer and local communities. In order to ensure the most effective balance between physical proximity and financial sustainability, following the establishment of the Group, a Territorial Development Plan was approved. Its main objectives include expanding market shares and gross banking income with a variety of initiatives, including the repositioning of various branches in more attractive locations and enhancing cost efficiency in certain under-performing branches.



The ICBG has at least one branch in 1,722 of the 4,971 Italian municipalities served by banks (34.6% of the total). In 338 of these municipalities (19.6% of the total), the Group's branches are the only banking presence, consistent with the organization's community-centric mission.. Lombardy is the region in which the ICBG is present in the most municipalities (404), while Tuscany boasts the largest share of municipalities with a banking presence (61.1%).

Region	Municipalities with banking services	with ICBG branch	(%)	of which ICBG is only presence	(%)
Lombardy	1,045	404	38.66%	94	23.27%
Veneto	473	266	56.24%	36	13.53%
Tuscany	252	154	61.11%	5	3.21%
Emilia-Romagna	307	121	39.41%	7	5.79%
Sicily	264	105	39.77%	38	36.19%
Lazio	207	101	49.28%	18	17.82%
Marche	184	100	54.35%	13	13.00%
Campania	275	85	30.91%	37	43.53%
Calabria	129	58	44.96%	31	53.45%
Piedmont	477	62	12.99%	10	15.87%
Friuli-Venezia Giulia	155	61	39.35%	10	16.39%
Puglia	205	61	29.76%	1	1.64%
Abruzzo	146	55	37.67%	13	23.21%
Basilicata	81	33	40.74%	15	45.45%
Umbria	72	22	30.56%	2	9.09%
Molise	30	12	40.00%	7	58.33%
Liguria	110	10	9.09%	1	10.00%
Sardinia	277	10	3.61%	0	0.00%
Trentino-Alto Adige	257	2	0.78%	0	0.00%
Valle d'Aosta	25	0	0.00%	0	0.00%
Total	**4,971**	**1,722**	**34.64%**	**338**	**19.62%**

Source: Based on Bank of Italy data as at June 30, 2021

With regard to competitive pressure, 80.3% of the municipalities in which the Group is present have at least one branch of another bank.

No. of other banks present in the municipalities in which ICBG has a presence	0	1	2	3	more than 3	Total
No. Municipalities	338	337	285	177	585	**1,722**
% of the total	19.62%	19.58%	16.55%	10.28%	33.97%	**100.00%**

Source: Based on Bank of Italy data as at June 30, 2021

Strategic positioning of the Group's banks

The banks belonging to the Iccrea Cooperative Banking Group, including Banca Sviluppo, have a market share of lending to resident customers (performing loans to consumer households and firms, net of repurchase agreements and monetary financial institutions) equal to 5.9%. The support measures implemented by the Government have sustained market shares in lending to consumer households and firms.

By region, the Group has its largest market share in the Marche region (over 14%), followed by Tuscany, Abruzzo and Basilicata with values around 10%. These percentages are about the same for market share among consumers and businesses.

Region	Market share – loans to households and firms	Market share – loans to consumer households	Market share – loans to firms
Marche	14.27%	13.72%	14.68%
Tuscany	10.26%	9.79%	10.67%
Abruzzo	10.30%	9.05%	11.41%
Basilicata	10.06%	6.43%	13.48%
Friuli-Venezia Giulia	9.42%	11.14%	8.17%
Veneto	9.17%	9.86%	8.71%
Emilia-Romagna	6.64%	7.50%	6.11%
Calabria	6.38%	4.79%	8.82%
Molise	5.01%	3.33%	7.12%
Umbria	4.53%	3.79%	5.11%
Lombardy	5.07%	4.99%	5.12%
Piedmont	3.89%	3.68%	4.04%
Puglia	4.28%	2.99%	5.98%
Sicily	3.30%	2.50%	4.55%
Campania	3.09%	1.95%	4.35%
Lazio	5.95%	6.57%	5.40%
Sardinia	2.15%	0.82%	3.98%
Liguria	1.49%	1.17%	1.82%
Valle d'Aosta/Vallée d'Aoste	0.40%	0.34%	0.44%
Trentino-Alto Adige/Südtirol	0.28%	0.13%	0.34%
Total	**5.91%**	**5.73%**	**6.04%**

Source: Based on supervisory and Bank of Italy data as at June 30, 2021. Loans to and deposits by customers are shown based on customer residence.

With regard to deposits by resident customers, market share is at 6.3%, for a total of about €101 billion. The market share for deposits by customers (consumer households and firms) is again led by Marche, with 15.3%, followed by Tuscany and Veneto.

Region	Market share of customer deposits (consumer households and firms)
Marche	15.30%
Tuscany	11.64%
Veneto	10.34%
Friuli-Venezia Giulia	9.65%
Abruzzo	9.26%
Basilicata	7.33%
Emilia-Romagna	6.70%
Lombardy	6.28%
Umbria	5.85%
Calabria	5.51%
Sicily	5.15%
Lazio	5.15%
Puglia	4.33%
Piedmont	4.00%
Campania	3.02%
Molise	2.75%
Sardinia	1.93%
Liguria	1.18%
Valle d'Aosta/Vallée d'Aoste	0.23%
Trentino-Alto Adige/Südtirol	0.27%
Total	**6.34%**

Source: Based on supervisory and Bank of Italy data as at June 30, 2021. Loans to and deposits by customers are shown based on customer residence.

Distribution of employees and shareholders

In line with the regional distribution of branches, the branch network by number of employees shows peak numbers in the regions of Lombardy, Veneto, Tuscany, Emilia–Romagna and Marche. The average number of employees per branch nationwide was 4.6, slightly down on the same period of 2020 (5.1). The average number of employees per branch is the outcome of a process begun some time ago by the mutual banks, who have sought to optimize their presence in the territories in which mutual banks provide a social service, reducing opening hours and days where appropriate while at the same time balancing the need for physical proximity with that for financial sustainability. Analyzing the data by region, Piedmont has the largest number of employees per branch (5.9), followed by Lazio (5.1).

Region	No. Employees/Region	Employees/Branch
Lombardy	2,542	4.9
Veneto	1,868	4.7
Tuscany	1,369	4.9
Emilia-Romagna	1,119	4.7
Lazio	986	5.1
Marche	782	4.8
Piedmont	528	5.9
Campania	431	4.2
Sicily	395	3.0
Friuli-Venezia Giulia	353	3.9
Puglia	329	4.3
Calabria	234	3.8
Abruzzo	309	4.2
Umbria	136	3.7
Basilicata	98	2.8
Liguria	51	4.6
Sardinia	37	3.4
Molise	14	1.2
Trentino-Alto Adige/Südtirol	3	1.5
Total Italy	**11,580**	**4.6**

Source: Based on supervisory and Bank of Italy data as at December 31, 2020.

In terms of ownership structure, the number of shareholders at June 2021 totaled more than 833,000, an increase of 9 thousand on December 31, 2020 (+1.05%) and one of more than 19 thousand on June 2020. The northern and central areas, with about 44% of shareholders each, account for nearly 90% of the total shareholder base.

Geographical area	No. shareholders Dec 20	(%)	No. shareholders Jun 21	(%)	Diff Jun 21 - Dec 20	Chg Jun 21- Dec 20
North-west	241,424	29.28%	243,984	29.28%	2,560	1.06%
North-east	118,141	14.33%	119,787	14.38%	1,646	1.39%
Center-west	201,031	24.38%	204,342	24.52%	3,311	1.65%
Center-east	165,783	20.10%	166,444	19.97%	661	0.40%
South-west	71,871	8.72%	72,547	8.71%	676	0.94%
South-east	26,360	3.20%	26,183	3.14%	-177	-0.67%
Total	**824,610**	**100.00%**	**833,287**	**100.00%**	**8,677**	**1.05%**

Source: Based on supervisory data as at June 30, 2021. The number of shareholders is shown by area in which the bank is headquartered.

4. DEVELOPMENTS IN GROUP OPERATIONS

The following provides an overview of the main balance sheet and income statement figures of the Iccrea Cooperative Banking Group as at June 30, 2021. 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.

BALANCE SHEET

Consolidated assets

€/thousands	30/06/2021	31/12/2020
Cash and cash equivalents	945,211	992,575
Financial assets measured at fair value through profit or loss	1,825,453	1,892,207
Financial assets measured at fair value through other comprehensive income	7,838,791	7,870,200
Financial assets measured at amortized cost	156,362,386	151,183,057
a) due from banks	8,684,721	6,461,475
b) loans to customers	87,736,045	87,277,814
c) securities	59,941,620	57,443,769
Hedging derivatives and value adjustments of macro-hedged financial assets	132,198	234,369
Equity investments	117,388	114,502
Property, plant and equipment	2,691,733	2,741,691
Intangible assets	159,932	168,844
Tax assets	1,960,219	2,119,045
Non-current assets and disposal groups held for sale	17,040	18,368
Other assets	2,526,777	1,933,254
Total assets	**174,577,128**	**169,268,115**

The consolidated assets of the Iccrea Cooperative Banking Group at June 30, 2021, totaled €174.6 billion, up €5.3 billion (+3.1%) on December 31, 2020. This increase is mainly attributable to the greater exposure to securities in the HTC portfolio and, to a lesser extent, to the growth in deposits held with central banks.

Financial assets measured at fair value through profit or loss, in the amount of €1.8 billion, include financial assets held for trading in the amount of €0.2 billion (mainly in government securities held for trading), financial assets designated as at fair value in the amount of €0.3 billion (in instruments in which liquidity from the guarantee scheme is invested, mainly in European government securities), and other financial assets mandatorily measured at fair value in the amount of €1.3 billion (which mainly includes units in CIUs, policies, and postal bonds).

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

€/thousands	L1	L2	L3	Total 30/06/2021	Total 31/12/2020
Financial assets held for trading	50,928	184,291	3,146	238,365	270,537
Debt securities	47,489	1,151	53	48,694	19,110
Equity securities	1,908	56	3	1,967	2,614
Units in collective investment undertakings	1,322	3,789	77	5,188	7,577
Financial derivatives	209	179,294	3,012	182,515	241,236
Financial assets designated as at fair value	311,946	-	3,303	315,249	345,094
Debt securities	311,946	-	-	311,946	341,076
Financing	-	-	3,303	3,303	4,017
Financial assets mandatorily measured at fair value	75,844	1,080,887	115,108	1,271,839	1,276,575
Debt securities	30,109	48,755	3,618	82,483	67,255
Equity securities	16,075	6,596	35,533	58,204	43,182
Units in collective investment undertakings	29,660	251,574	23,514	304,747	343,163
Financing	-	773,962	52,444	826,406	822,975
Financial assets measured at fair value through profit or loss	**438,718**	**1,265,178**	**121,557**	**1,825,454**	**1,892,207**

The portfolio of financial assets measured at fair value through other comprehensive income amounted to €7.8 billion, broadly in line with December 31, 2020, and is mainly represented by government securities held in accordance with the HTCS business model. The aggregate also includes minority interests in the amount of €330 million, which are measured at fair value through other comprehensive income without recycling to profit or loss.

€/thousands	L1	L2	L3	Total 30/06/2021	Total 31/12/2020
Debt securities	7,489,151	16,522	3,590	7,509,263	7,705,078
Equity securities	12,094	250,971	66,463	329,528	165,122
Financial assets measured at fair value through other comprehensive income	**7,501,245**	**267,493**	**70,052**	**7,838,791**	**7,870,200**

For a breakdown of financial assets measured at amortized cost, in the amount of €156.4 billion, 62% is in loans with the remainder in debt securities. These assets may be categorized by their relative level of risk as shown below.

€/thousands	Gross value		Total writedowns	
	Stages 1 and 2	Stage 3	Stages 1 and 2	Stage 3
Financing	93,715,931	8,284,899	(824,776)	(4,755,286)
Loans to banks[13]	8,688,437	1,287	(3,979)	(1,024)
Loans to customers[12]	85,027,494	8,283,611	(820,797)	(4,754,262)
Debt securities	60,046,304	1,635	(105,465)	(853)
Total financial assets measured at amortized cost	**153,762,234**	**8,286,534**	**(930,242)**	**(4,756,140)**

More specifically, net loans to customers totaled €87.7 billion, €84.2 billion of which performing and about €3.5 billion related to impaired positions. Of this total, more than 80% was in medium and long-term financing (both loans and leases). Lending to ordinary customers increased by about €1.4 billion during the first half of the year, growth that was partially offset by a decrease in exposures to the Clearing and Guarantee Fund (down €0.9 billion from December 2020).

€/thousands	Stages 1 and 2	Stage 3	Total 30/06/2021	% share	Total 31/12/2020	% share
Current accounts	5,600,485	589,638	6,190,123	7.1%	6,621,472	7.6%
Repurchase agreements	643,403	-	643,403	0.7%	1,813,263	2.1%
Medium/long-term loans	65,382,688	2,525,191	67,907,879	77.4%	65,616,601	75.2%
Credit cards, personal loans and salary-backed loans	2,046,408	32,224	2,078,632	2.4%	2,062,577	2.4%
Lease financing	4,110,470	275,229	4,385,698	5.0%	4,497,061	5.2%
Factoring	367,129	25,886	393,015	0.4%	483,028	0.6%
Other lending	6,056,113	81,182	6,137,295	7.0%	6,183,811	7.1%
Financial assets measured at amortized cost – Loans to customers	**84,206,696**	**3,529,349**	**87,736,045**	**100.0%**	**87,277,814**	**100.0%**

Gross impaired loans, which have continued to decrease in recent years thanks to robust de-risking efforts pursued in coordination with the Parent Company, came to about €8.3 billion, or 8.1% of total gross lending (8.9% of loans to customers alone). Net impaired loans amounted to €3.5 billion, equal to 3.7% of net lending (4% when considering only ordinary customers). The ratios of net non-performing loans and net unlikely-to-pay positions to net lending came to 1.2% and 2.1%, respectively (1.3% and 2.3% when considering only ordinary customers).

As shown in the table below, efforts to improve the Group's risk profile, alongside the robust de-risking measures, can also be seen in the more prudent assessment policies, which have resulted in an increase in the coverage of NPLs to 57.4% by the end of June 2021, an increase of nearly 2 percentage points compared with the end of the previous year.

Type of exposure	Gross exposure	Writedowns	Net exposure	Coverage 30/06/2021	Coverage 31/12/2020
Bad loans	4,038,869	(2,903,843)	1,135,026	71.9%	70.4%
Unlikely-to-pay positions	3,785,634	(1,765,023)	2,020,611	46.6%	43.6%
Impaired past-due positions	459,108	(85,397)	373,711	18.6%	17.8%
Impaired exposures to customers at year end	**8,283,611**	**(4,754,262)**	**3,529,349**	**57.4%**	**55.7%**

The particular business model of the affiliated banks, which account for the largest component of assets and of total loans to customers, is reflected, above all, in the type of counterparty. Total loans disbursed, a gross amount of €93.3 billion at June 30, 2021, have, as mentioned previously, mainly gone to households and small and medium-sized enterprises (SMEs), which accounted for 36% and 49% of total lending, respectively. As shown in the table below, these segments feature a lower NPL ratio than for the corporate segment, thereby confirming the ability to better discriminate and manage credit relationships with households and SMEs, which have always been the core customer base of

[13] Source: Based on consolidated Finrep data.

mutual banks.

Type of counterparty	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
Ordinary customers	**92,444,992**	**99.1%**	**91.0%**	**99.0%**	**9.0%**	**99.8%**
Households	33,528,114	35.9%	94.6%	37.3%	5.4%	21.9%
Small and medium-sized enterprises	45,333,277	48.6%	91.7%	48.9%	8.3%	45.2%
- Family businesses	8,569,929	9.2%	90.4%	9.1%	9.6%	9.9%
- Micro-businesses, associations and other organizations	8,655,340	9.3%	88.6%	9.0%	11.4%	11.8%
- Other SMEs	28,108,008	30.1%	93.1%	30.8%	6.9%	23.5%
Other non-financial companies	10,614,294	11.4%	74.8%	9.3%	25.2%	32.1%
Other financial companies	2,969,307	3.2%	98.3%	3.4%	1.7%	0.6%
Government entities	**866,112**	**0.9%**	**98.4%**	**1.0%**	**1.6%**	**0.2%**
Total loans to customers at period end	**93,311,104**	**100.0%**	**91.1%**	**100.0%**	**8.9%**	**100.0%**

In terms of geographical distribution, the Group’s exposures are mainly concentrated in northern Italy (55.8%), where there has been a lower level of credit risk, and in central Italy (32%).

Geographical area	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	NPL Ratio	Ratio to total NPL
North-east	26,520,550	28.4%	92.4%	28.8%	7.6%	24.4%
North-west	25,562,108	27.4%	92.1%	27.7%	7.9%	24.6%
Center	29,827,295	32.0%	89.9%	31.5%	10.1%	36.6%
South and islands	11,401,153	12.2%	89.6%	12.0%	10.4%	14.4%
Total loans to customers at period end	**93,311,104**	**100.0%**	**91.1%**	**100.0%**	**8.9%**	**100.0%**

In terms of the economic segment of customers, in addition to consumer households, the segments that saw the greatest lending were real estate and construction (which has the highest level of NPLs), manufacturing, commerce, and services. Given the extensive geographical presence, the share of lending to the primary sector is also higher than the Italian average.

Economic segment of the 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	Ratio to total	Ratio to total NPL
Consumer households	33,528,114	35.9%	94.6%	37.3%	5.4%	21.9%
Primary sector	5,173,509	5.5%	92.2%	5.6%	7.8%	4.9%
Manufacturing	12,912,675	13.8%	92.1%	14.0%	7.9%	12.3%
Commerce	10,120,924	10.8%	90.7%	10.8%	9.3%	11.3%
Real estate and construction	14,000,448	15.0%	79.0%	13.0%	21.0%	35.4%
Services and other	13,740,016	14.7%	91.8%	14.8%	8.2%	13.5%
Government entities	866,112	0.9%	98.4%	1.0%	1.6%	0.2%
Financial companies	2,969,307	3.2%	98.3%	3.4%	1.7%	0.6%
Total loans to customers at period end	**93,311,104**	**100.0%**	**91.1%**	**100.0%**	**8.9%**	**100.0%**

The particular model of mutual banking, featuring a prevalence of medium and long-term lending to households and small businesses, is responsible for the high rate of collateral-backed lending (more than 62.1%). More specifically, 74% of all impaired lending is backed by collateral, and this figure is to be interpreted in conjunction with the high level of NPL coverage, which testifies to the prudent approach to assessing the recoverability of credit.

Type of guarantee	Gross value	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances	
			Ratio to total	Ratio to total performing	Ratio to total	Ratio to total NPL
Collateral	57,962,349	62.1%	89.4%	61.0%	10.6%	73.7%
Unsecured guarantees	21,727,286	23.3%	93.4%	23.9%	6.6%	17.1%
Not guaranteed	13,621,470	14.6%	94.4%	15.1%	5.6%	9.2%
Total loans to customers at period end	**93,311,104**	**100.0%**	**91.1%**	**100.0%**	**8.9%**	**100.0%**

With regard to financial assets measured at amortized cost, amounts due from banks (net of debt securities) amounted to approximately €8.7 billion and include €7.1 billion in respect of the reserve requirement with central banks (up €2.4 billion on December 31, 2020).

€/thousands	Stages 1 and 2	Stage 3	Total 30/06/2021	% share	Total 31/12/2020	% share
Due from central banks	7,111,519	-	7,111,519	81.9%	4,680,695	53.9%
Loans to banks	1,572,939	263	1,573,202	18.1%	1,780,780	20.5%
Current accounts and demand deposits	548,943	-	548,943	6.3%	543,248	6.3%
Time deposits	49,318	-	49,318	0.6%	38,955	0.4%
Other	974,678	263	974,941	11.2%	1,198,578	13.8%
Financial assets measured at amortized cost – Loans to banks	**8,684,458**	**263**	**8,684,721**	**100.0%**	**6,461,475**	**100.0%**

Finally, debt securities measured at amortized cost (under the HTC business model), largely represented by Italian government securities, totaled €59.9 billion. The increase in the exposure in securities (+€2.3 billion on the end of 2020) reflects the increase in recourse to TLTRO operations).

Among assets: (i) equity investments (€117.4 million) mainly represent interests in associates, the most significant of which are the investments in BCC Vita (30% interest) and BCC Assicurazioni (30% interest); (ii) property, plant and equipment, totaling €2.7 billion, includes property used in operations (€2 billion) as well as properties contributed to consolidated real estate investment funds in the amount of €0.5 billion; (iii) intangible assets (€159.9 million) mainly include software and user licenses (€136.9 million) and, to a lesser extent, goodwill for the remaining €23 million, a portion of which has been recognized among assets for the affiliated banks for the acquisition of bank branches (€7.5 million) prior to creation of the Cooperative Banking Group; (iv) tax assets totaling about €2 billion, including current taxes of about €0.5 billion and deferred tax assets of about €1.5 billion, the latter of which includes about €1.2 billion referring to Law 214/2011.

Consolidated liabilities and equity

€/thousands	30/06/2021	31/12/2020
Financial liabilities measured at amortized cost	157,455,386	154,229,489
a) due to banks	34,668,846	32,114,297
b) due to customers	110,811,031	108,396,697
c) securities issued	11,975,509	13,718,495
Financial liabilities held for trading	206,929	243,808
Financial liabilities designated as at fair value	676	3,117
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	363,645	513,071
Tax liabilities	56,423	101,216
Other liabilities	5,053,933	3,018,072
Post-employment benefits	275,806	295,178
Provisions for risks and charges	493,579	528,106
Equity	10,270,447	10,140,264
Profit/(loss) for the period	400,303	195,792
Total liabilities and equity	**174,577,128**	**169,268,115**

Total consolidated liabilities and equity at June 30, 2021, amounted to €174.6 billion, up €5.3 billion (+3.1%) on December 31, 2020. The increase is mainly attributable to liabilities measured at amortized cost (up €3.2 billion).

More specifically, financial liabilities measured at amortized cost include direct deposits from ordinary customers (excluding liabilities to the Clearing and Guarantee Fund) totaling €116.3 billion (up €3.1 billion on the end of 2020). The increase in amounts due to ordinary customers (+€4.8 billion) was connected mainly with the increase in balances on current accounts and demand deposits, partly offset by the decline in securities issued as they matured that were not accompanied by new issues (-€1.7 billion).

€/thousands	30/06/2021	31/12/2020
Current accounts and demand deposits	96,914,980	92,228,718
Time deposits	5,829,834	5,748,454
Outstanding securities	11,975,509	13,718,496
Bonds	6,766,420	8,308,713
Other securities	5,209,090	5,409,783
Other payables	1,610,402	1,520,194
Financial liabilities measured at amortized cost – Direct funding from ordinary customers	**116,330,725**	**113,215,862**

More specifically, total funding from ordinary customers (excluding outstanding securities) increased by 4.9% to €104.4 billion. Net of deposits

by government entities, which decreased during the period, this funding increased by 5.3% (+€5.2 billion) in the first six months of 2021, including a sharp increase in deposits by businesses of all sizes (+9.5%, an increase of €2.4 billion). In relative terms, funding from households, which accounts for 62% of the total, increased at a slower pace (+4.6%, an increase of €2.8 billion).

€/thousands	30/06/2021		31/12/2020		% change 2021-2020
	Total	Ratio to total	Total	Ratio to total	
Ordinary customers	**102,541,300**	**98.3%**	**97,340,603**	**97.8%**	**5.3%**
Consumer households	64,685,723	62.0%	61,847,844	62.2%	4.6%
Small and medium-sized enterprises	28,155,403	27.0%	25,709,367	25.8%	9.5%
- Producer households	6,045,424	5.8%	5,718,688	5.7%	5.7%
- Micro-businesses, associations and other	5,885,942	5.6%	5,313,938	5.3%	10.8%
- Other SMEs	16,224,038	15.5%	14,676,741	14.8%	10.5%
- Other non-financial companies	6,072,127	5.8%	5,626,305	5.7%	7.9%
- Other financial companies	3,628,047	3.5%	4,157,087	4.2%	-12.7%
Government entities	**1,813,916**	**1.7%**	**2,156,763**	**2.2%**	**-15.9%**
Deposits and current accounts at amortized cost	**104,355,216**	**100.0%**	**99,497,367**	**100.0%**	**4.9%**

The remainder of financial liabilities measured at amortized cost comprises funding from institutional customers (€41.1 billion) and includes: i) €5.3 billion in repurchase agreements, almost entirely with the Clearing & Guarantee Fund; (ii) €34.7 billion in amounts due to banks, of which €32.8 billion in operations with the ECB (notably TLTROs) and €1.8 billion in other amounts due to banks outside the Group.

Amounts due to banks, of which more than 95% is represented by exposures to central banks, increased by a total of €2.6 billion, primarily reflecting the Group's new financial strategy cited earlier, which was adopted in response to the more expansionary monetary policy stance of the ECB.

€/thousands	30/06/2021	31/12/2020
Loans to customers	6,455,815	8,899,330
Repos	5,329,905	6,821,435
Other	1,125,910	2,077,896
Due to banks	34,668,846	32,114,297
Due to central banks	32,843,861	29,923,224
Due to banks	1,824,985	2,191,072
Current accounts and demand deposits	235,857	299,339
Time deposits	124,985	116,154
Loans and repurchase agreements	1,339,141	1,648,035
Other	125,002	127,544
Financial liabilities measured at amortized cost – Funding from institutional customers	**41,124,661**	**41,013,627**

The other main liabilities include the following: (i) financial liabilities held for trading, in the amount of €206.9 million (-€36 million on 2020), which include the negative fair value of trading derivatives; (ii) tax liabilities, totaling €56.4 million, including €42.2 million in deferred tax liabilities on temporarily non-taxable revenues; (iii) other liabilities of about €5 billion, the largest components of which include €2 billion in illiquid portfolio items, €809 million in amounts available to customers, €468 million in taxes payable for withholdings made and amounts to be paid to tax authorities and €367 million in items being processed and other transit items; and (iv) post-employment benefits for the Group totaling €275.8 million and provisions for risks and charges of €493.6 million (which includes provisions for credit risk in the amount of €243 million against commitments to disburse funds and financial guarantees issued).

Consolidated shareholders' equity

Consolidated shareholders' equity totaled €10.7 billion. Share capital includes the capital of the Parent Company, amounting to €1.4 billion, and the capital of the mutual banks, which, together with the Parent Company, constitute a single consolidating entity. Treasury shares mainly represent the capital of Iccrea Banca held by the affiliated banks consolidated in application of Article 1072 of Law 145/2018.

Reserves totaled €8.8 billion and mainly included legal reserves of €10.4 billion – accumulated as a result of an aggressive use of self-funding by the affiliated banks in relation to the aforementioned obligation for the capitalization of at least 70% of earnings – and a negative IFRS 9 reserve of €1.6 billion.

€/thousands	30/06/2021	31/12/2020
Share capital	2,305,267	2,307,331
Equity instruments	30,139	30,139
Share premium reserve	146,043	150,256
Treasury shares	(1,261,450)	(1,247,818)
Valuation reserves	246,512	253,301
Reserves	8,738,569	8,575,538
Profit for the year	400,303	195,792
Equity pertaining to shareholders of the Parent Company	**10,605,383**	**10,264,539**
Non-controlling interests	**65,367**	**71,517**
Total shareholders' equity	**10,670,750**	**10,336,056**

INCOME STATEMENT

Consolidated income statement

€/thousands	30/06/2021	30/06/2020
Net interest income	**1,368,463**	**1,210,966**
Net fee and commission income	**656,271**	**604,182**
Dividends, net gain/(loss) on trading activities, net gain/(loss) on hedging and net gain/(loss) on assets and liabilities at FVTPL	35,663	(652)
Net gain (loss) on disposals	286,873	219,039
Gross income	**2,347,269**	**2,033,535**
Net writedowns/writebacks for credit risk	(389,795)	(387,495)
- Financial assets measured at amortized cost – Loans to customers	*(382,552)*	*(348,188)*
Gains/losses from contract modifications without cancellations	(867)	(2,010)
Net income/(loss) from financial operations	**1,956,608**	**1,644,030**
Administrative expenses	(1,546,804)	(1,472,317)
a) personnel expenses	(853,678)	(833,691)
b) other administrative expenses	(693,126)	(638,627)
Depreciation, amortization and provisions	(130,655)	(151,229)
Other operating income/expense	157,287	165,747
Operating expenses	**(1,520,172)**	**(1,457,800)**
Profit/(loss) from equity investments	20,475	193
Net gain/(loss) from fair value measurement of property, plant and equipment and intangible assets	(7,915)	(10,775)
Goodwill impairment	-	(259)
Profit/(loss) from disposal of investments	55	(310)
Profit/(loss) before tax on continuing operations	**449,051**	**175,079**
Income tax expense from continuing operations	(44,065)	(48,455)
Profit/(loss) for the period	**404,985**	**126,625**
Net profit/(loss) pertaining to non-controlling interests	**4,682**	**4,503**
Net profit/(loss) pertaining to the Group	**400,303**	**122,123**

The Group ended the first half of 2021 with net profit of €405 million, €400.3 million of which pertaining to the shareholders of the Parent Company, about €278 million more than in the same period of 2020.

More specifically, net interest income came to €1.4 billion, the net result of interest income of €1.6 billion (€1.1 billion on loans to customers, €370 million on debt securities and €185 million on funding with negative interest rates) and interest expense of about €0.2 billion, mainly related to amounts due to customers and outstanding securities recognized among financial liabilities and measured at amortized cost.

The increase in net interest income (+€157.5 million compared with June 2020) is attributable to (i) an increase in interest income on financial liabilities (+€105 million, essentially TLTRO) connected with the additional monetary policy measures adopted by the ECB to mitigate the

effects of the pandemic (the "special period") and (ii) a decline in interest expense on liabilities at amortized cost both as a result of re-pricing and a reduction in the stock (-€14.7 million on customer loans and -€21.8 million on outstanding securities).

Interest and similar income

€/thousands	Debt securities	Loans	Other transactions	Total 30/06/2021	Total 30/06/2020
Financial assets measured at fair value through profit or loss	5,155	978	-	6,133	7,407
Financial assets measured at fair value through other comprehensive income	23,820	-	-	23,820	26,329
Financial assets measured at amortized cost	341,403	1,121,148	-	1,462,551	1,361,887
Hedge derivatives	-	-	(105,633)	(105,633)	(18,126)
Other assets	-	-	2,128	2,128	1,226
Financial liabilities	-	-	185,363	185,363	80,677
Interest and similar income	**370,378**	**1,122,126**	**81,858**	**1,574,362**	**1,459,401**

Interest and similar expense

€/thousands	Payables	Securities	Other transactions	Total 30/06/2021	Total 30/06/2020
Financial liabilities measured at amortized cost	(97,793)	(87,730)	-	(185,523)	(221,640)
Financial liabilities held for trading	-	-	(86)	(86)	(239)
Financial liabilities designated as at fair value	-	(47)	-	(47)	(199)
Other liabilities and provisions	-	-	(762)	(762)	(764)
Hedge derivatives	-	-	1,169	1,169	797
Financial assets	-	-	(20,651)	(20,651)	(26,389)
Interest and similar expense	**(97,793)**	**(87,777)**	**(20,329)**	**(205,899)**	**(248,434)**

Net fee and commission income amounted to €656.3 million in the first half of 2021, an increase from the corresponding period of the previous year (+€52 million), 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 €65 million. The rise in net fee and commission income is mainly attributable to the general recovery in the economy compared with conditions during the lockdown last year and the first signs of the positive effects of commercial campaigns.

Fee and commission income

€/thousands	30/06/2021	30/06/2020
Guarantees issued	12,200	12,347
Management, intermediation and advisory services	183,985	162,395
Collection and payment services	101,574	97,374
Servicing for securitizations	1,019	1,268
Services for factoring transactions	2,094	1,711
Management of current accounts	250,190	232,122
Other services	170,310	157,560
Fee and commission income	**721,372**	**664,777**

Fee and commission expense

€/thousands	30/06/2021	30/06/2020
Guarantees received	(527)	(925)
Management and intermediation services	(5,921)	(5,575)
Collection and payment services	(6,312)	(7,272)
Other services	(52,341)	(46,824)
Fee and commission expense	**(65,101)**	**(60,596)**

The net gain on disposals came to €286.9 million, an increase of €67.8 million on the first half of 2020, and mainly includes the gain on the sale of government securities in the HTC and HTCS portfolios.

Net writedowns for credit risk totaled €389.8 million, broadly unchanged on the first half of the previous year.

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

- personnel expenses amounting to €0.8 billion. The slight increase compared with the first half of 2020 (+€20 million) is attributable to the increase in the ICBG workforce, an increase in variable remuneration associated with developments in operations and the resumption of overtime work and business travel, which last year had been halted during the prolonged lockdown;
- other administrative expenses totaling €0.7 billion, up €55 million compared with the corresponding period of the previous year, mainly reflecting the charges connected with the ordinary contribution to the Deposit Guarantee Fund for mutual banks, which in the first half of 2021 were entirely accounted for in this item. In the first half of the previous year, part of these charges (€35 million) were recognized in the provisions for risks and charges pending the decision by the European Commission regarding the petition presented through the industry association for a reduction in the target level of the resources of the DGF for mutual banks from 0.8% of guaranteed deposits to 0.5%.
- provisions, depreciation and amortization amounting to €130.7 million, down €21 million in reflection of the above developments connected with the DGF contribution and an increase but also of the increase in provisions, depreciation and amortization recognized in the period;
- other net operating income came to €157.3 million, a slight decrease on the first six months of 2020 (-€8.5 million).

CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

Own funds

The following table offers a breakdown of own funds at June 30, 2021, which amounted to €11.3 billion.

Capital and capital ratios - €/thousands	30/06/2021	31/12/2020	30/06/2020
Share capital	2,305,267	2,307,331	2,314,364
Share premium reserve	146,043	150,256	148,518
Treasury shares and repurchase commitments	(1,331,892)	(1,272,314)	(1,239,658)
Reserves	8,997,312	8,834,635	8,851,670
Profit/(Loss) for the period	(16,984)	(35,725)	(90,329)
Other components of other comprehensive income	(10,052)	(2,732)	(32,126)
Transitional provisions – IFRS 9	897,250	1,216,047	1,198,273
Goodwill (net of related tax effects)	(22,722)	(22,112)	(24,568)
Intangible assets (net of related tax effects)	(72,192)	(145,716)	(124,746)
Other deductions	(32,324)	(32,664)	(59,484)
Prudential filters	(6,187)	13,310	(14,395)
Non-controlling interests	14,835	14,807	16,672
Common Equity Tier 1 (CET1 ratio)	**10,868,354**	**11,025,122**	**10,944,191**
Additional Tier 1 (AT1)	34,341	34,541	34,658
Tier 1 (T1)	**10,902,695**	**11,059,663**	**10,978,849**
Eligible subordinated loans	437,240	449,787	485,275
Tier 2 (T2)	**437,240**	**449,787**	**485,275**
Total Own Funds (TC)	**11,339,935**	**11,509,449**	**11,464,124**

In light of the special accounting rules applicable[14] and the obligation under Article 38 of the Consolidated Banking Act for the affiliated banks to allocate at least 70% of annual earnings to reserves, own funds mainly include reserves (€8.9 billion), in addition to share capital in the amount of €2.3 billion (mainly composed of the shareholder contributions of the affiliated banks and the associated share premiums), which decreases to €1 billion after elimination of the capital of the Parent Company held by the affiliated banks (reported under treasury shares).

CET1 at June 30, 2020, which represents about 96% of total capital, declined with respect to December 2020 by a total of about €157 million, reflecting the algebraic sum of developments in a number of its main components, and specifically: (i) an increase in reserves (+€163 million, due, in part, to the calculation of earnings for 2020 authorized by the ECB on May 10, 2021); (ii) the reduction of the IFRS 9 phase-in from 70% to 50% (about €319 million); and (iii) a decrease in deductions and prudential filters, mainly attributable to the substantial reduction of deductions connected with capitalized software (a decline of about €66 million) in application of the new CRR2 rules. The effect of the deductions connected with calendar provisioning effects with a Pillar I impact pursuant to Regulation (EU) 630/2019 (about €1.8 million, reported under the aggregate "Other deductions", together with the deduction for deferred tax assets).

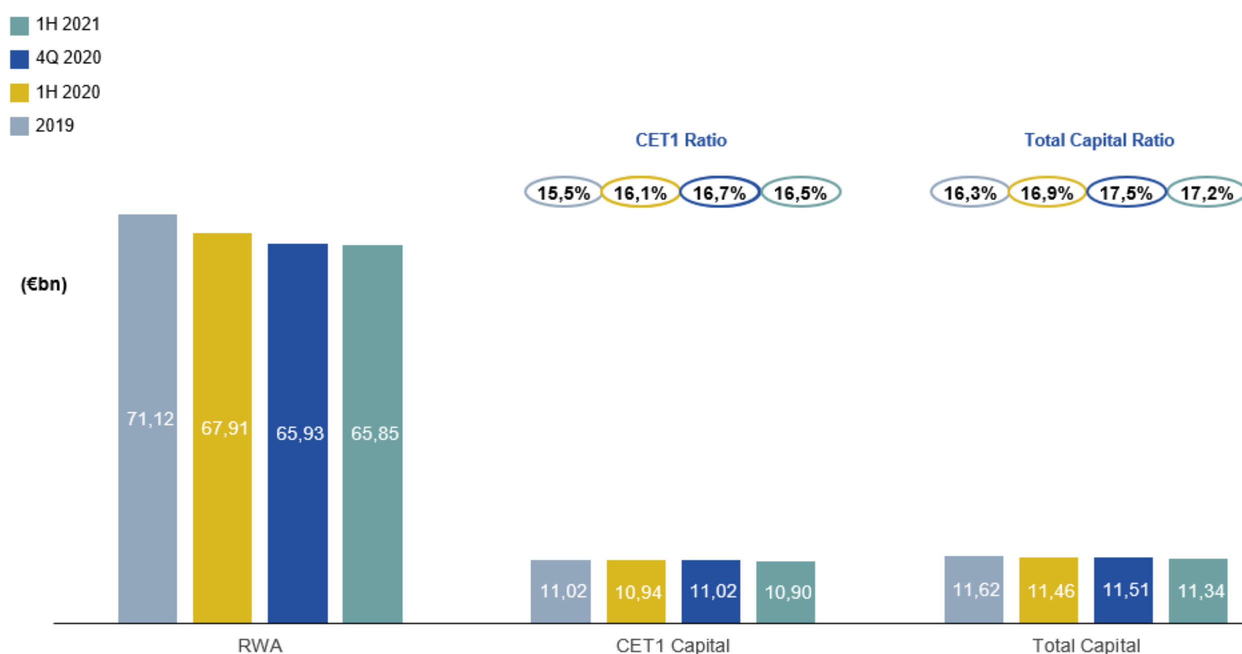
The changes in the other aggregates of own funds (Additional Tier 1 and Tier 2) were also marginal, with an overall reduction of €12.7 million, almost entirely attributable to Tier 2.

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

Own funds at June 30, 2021 show an overall decrease compared with December 31, 2020 of about €170 million. In this regard, the own funds aggregate at June 30, 2021 does not include profit for the period totaling about €415 million.

Capital adequacy

The CET1 ratio at June 30, 2021, came to 16.5%, while the TC ratio came to 17.2%. As shown in the figure below, both of these ratios have decreased compared with December 2020 (16.7% and 17.5%, respectively).

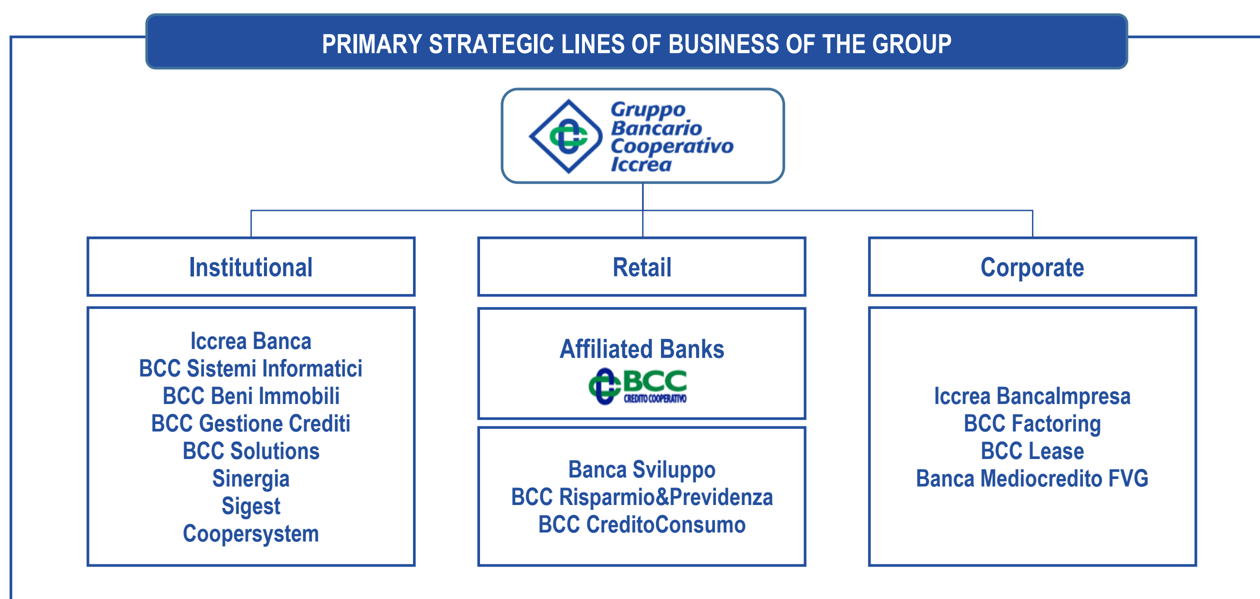


With the developments in own funds noted earlier – reflecting in part the unfolding of the IFRS 9 phase-in - RWAs are virtually in line with those at the end of 2020. The increase in RWAs associated with the application of the new prudential provisions on CIUs (an increase of about €0.8 billion in RWAs) and the increase in risk-weighted assets connected with software (no longer deducted but which generated RWAs of about €66 million) were substantially offset by the decrease in RWAs associated with the rolling out of the phase-in and, above all, with obtaining a government guarantee in April 2021 on the senior tranche of the securitization of bad loans closed at the end of 2020 (GACS IV), with a reduction of just over €0.5 billion in RWAs.

5. THE GROUP'S STRATEGIC LINES OF BUSINESS

CONSOLIDATED BANKS AND OTHER COMPANIES

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



The following tables show the main operational areas and the result of the individual business areas in which the Group operates.

There is a specific segment for the mutual banks based on their unique qualities, in line with the sector regulations that distinguish and preserve the nature of cooperative banking.

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Financial assets	360,293	12,640,042	74,459	59,293,781	(2,758,638)	69,609,937
Due from banks	260,423	30,204,043	438,476	17,277,902	(39,496,123)	8,684,721
Due from customers	5,410,340	6,199,438	1,116,508	76,920,461	(1,910,703)	87,736,045
Funding from banks	4,603,511	38,032,557	1,391,908	31,586,675	(40,945,805)	34,668,846
Funding from customers	694,252	7,047,949	183,167	103,024,790	(139,127)	110,811,031
Securities and other financial liabilities	62,868	4,202,492	5,380	9,720,488	(1,443,547)	12,547,681

€/thousands	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTERSEGMENT TRANSACTIONS	TOTAL
Net interest income	66,136	43,516	27,229	1,178,781	52,801	1,368,463
Net fee and commission income	4,315	94,945	26,589	549,983	(19,561)	656,271
Other financial expense and income	2,961	138,575	161	247,028	(66,189)	322,536
Gross income	**73,411**	**277,036**	**53,979**	**1,975,791**	**(32,948)**	**2,347,269**
Net value adjustments	(44,031)	(18,177)	(7,140)	(321,091)	(223)	(390,662)
Net gains/(losses) from financial operations	**29,381**	**258,860**	**46,839**	**1,654,700**	**(33,171)**	**1,956,608**
Operating expenses	(35,812)	(152,740)	(26,633)	(1,318,227)	13,239	(1,520,172)
Other costs and revenues	-	9,151	-	(1,949)	5,413	12,615
Profit/(loss) before tax from continuing operations	**(6,431)**	**115,270**	**20,206**	**334,525**	**(14,519)**	**449,051**
Income tax expense from continuing operations	2,318	(22,392)	(6,274)	(17,527)	(190)	(44,065)
Profit/(loss) for the period	**(4,113)**	**92,878**	**13,932**	**316,998**	**(14,709)**	**404,985**
Profit/(loss) pertaining to non-controlling interests	**(181)**	**4,873**	**(9)**	**-**	**-**	**4,682**
Profit/(loss) pertaining to shareholders of the Parent Company	**(3,931)**	**88,006**	**13,941**	**316,998**	**(14,709)**	**400,303**

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 for under applicable law and the Cohesion Contract – BCC Sistemi Informatici, BCC Solutions, Sinergia and other minor companies.

Balance sheet

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other[15]	
	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020
Cash and cash equivalents	237,393	209,428	1	1	3	1	3	4	1	1
Financial assets measured at fair value through profit or loss	1,341,170	1,335,470							1,984	
Financial assets measured at fair value through other comprehensive income	452,225	311,207	17	17	2	2	3	3		
Financial assets measured at amortized cost	47,665,077	47,485,060	2,839	19,023	4,967	3,278	8,279	8,688	30,677	24,084
a) due from banks	30,169,595	32,755,710	2,839	19,023	4,967	3,278	8,279	8,688	27,629	24,084
b) loans to customers	6,251,847	4,501,098								
c) securities	11,243,635	10,228,251							3,048	
Hedging derivatives and value adjustments of macro-hedged financial assets	3,979	9,868								
Equity investments	1,335,511	1,206,207					100	100	10	10
Property, plant and equipment	3,465	3,514	20,315	25,415	119,174	116,168	4,506	3,608	70,467	70,387
Intangible assets	893	2,127	107,420	110,819	270	330	2,824	2,897	1,301	1,473
Tax assets	64,693	91,859	3,048	3,187	259	269	1,576	1,344	4,057	5,400
Non-current assets and disposal groups held for sale	210,971	189,432								
Other assets	305,658	114,985	52,098	32,796	4,344	6,777	18,263	13,943	12,713	14,290
Total assets	**51,621,036**	**50,959,158**	**185,738**	**191,258**	**129,018**	**126,823**	**35,554**	**30,586**	**121,210**	**115,645**

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	30/6/2021	31/12/2020	30/6/21	31/12/20	30/6/21	31/12/20	30/06/21	31/12/20	30/6/21	31/12/20
Financial liabilities measured at amortized cost	48,234,472	47,707,809	3,661	2,736	57,398	56,824	3,472	2,750	26,866	27,711
a) due to banks	37,903,466	33,889,855	2,174		39,525	45,290	1,206	92	24,277	24,867
b) due to customers	7,041,249	9,631,949	1,487	2,736	17,872	11,534	2,265	2,659	2,589	2,844
c) securities issued	3,289,756	4,186,006								
Financial liabilities held for trading	453,556	563,511								
Financial liabilities designated as at fair value	336,289	340,957								
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	121,969	173,821								
Liabilities associated with disposal groups held for sale	199,932	170,813	271	163	51	177	64	290	1,650	1,976
Tax liabilities	1,510	1,173								
Other liabilities	508,667	332,160	68,880	77,877	12,694	10,804	24,307	21,539	15,323	13,187
Post-employment benefits	15,455	16,179	3,862	4,475	293	262	1,079	1,194	1,357	1,392
Provisions for risks and charges	28,279	21,867	1,111	2,004	602	630	945	988	1,920	1,396
Shareholders' equity	1,639,742	1,697,663	104,121	103,518	56,125	55,800	3,853	1,113	68,507	73,995
Profit/(loss) for the period (+/-)	81,166	(66,795)	3,832	485	1,856	2,330	1,834	2,712	5,587	(4,012)
Total liabilities and equity	**51,621,036**	**50,959,158**	**185,738**	**191,258**	**129,018**	**126,823**	**35,554**	**30,586**	**121,210**	**115,645**

[15] The item Other includes BCC Gestione Crediti, Beni Immobili, Sigest and Coopersystem.

Income statement

€/thousands	INSTITUTIONAL									
	Iccrea Banca		BCC Sistemi Informatici		BCC Solutions		Sinergia		Other	
	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020
Net interest income	88,245	35,006	(30)	(75)	(703)	(672)	(43)	(46)	(93)	(120)
Net fee and commission income	44,349	26,875			(2)	(4)	(9)	(9)	5,769	5,096
Dividends	27,865	37,041						19		
Net gain/(loss) on trading	10,003	7,581		(2)						
Net gain/(loss) on hedging	210	(2,107)								
Net gain/(loss) on disposals	54,682	48,964								
Net gain/(loss) on financial assets and liabilities at FVTPL	(3,256)	(11,352)								
Gross income	**222,097**	**142,008**	**(30)**	**(78)**	**(704)**	**(676)**	**(52)**	**(36)**	**5,676**	**4,977**
Net writedowns/writebacks for credit risk	(18,177)	(11,215)								
Net gains/(losses) from financial operations	**203,920**	**130,794**	**(30)**	**(78)**	**(704)**	**(676)**	**(52)**	**(36)**	**5,676**	**4,977**
Administrative expenses	(227,680)	(153,182)	(96,124)	(47,148)	(12,925)	(13,856)	(33,987)	(27,600)	(8,793)	(8,299)
a) personnel expenses	(98,482)	(81,298)	(19,847)	(9,847)	(3,266)	(3,222)	(14,143)	(12,257)	(2,658)	(2,820)
b) other administrative expenses	(129,198)	(71,884)	(76,276)	(37,302)	(9,659)	(10,635)	(19,844)	(15,343)	(6,135)	(5,478)
Depreciation, amortization and provisions	7,249	(1,573)	(20,117)	(5,897)	(5,876)	(5,639)	(1,469)	(1,150)	(2,420)	(2,099)
Other operating expenses/income	87,840	68,131	121,407	54,363	21,928	22,614	38,148	30,573	12,637	12,147
Operating expenses	**(132,591)**	**(86,624)**	**5,166**	**1,318**	**3,128**	**3,119**	**2,692**	**1,824**	**1,424**	**1,749**
Profit/(loss) from equity investments	12,011	(25,540)								
Profit/(loss) from disposal of investments										
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets										
Impairment of goodwill										
Profit/(loss) before tax on continuing operations	**83,340**	**18,630**	**5,136**	**1,241**	**2,423**	**2,443**	**2,641**	**1,788**	**7,100**	**6,726**
Income tax expense from continuing operations	(13,214)	5,387	(1,304)	(389)	(568)	(731)	(807)	(578)	(1,513)	(1,517)
Profit/(loss) on discontinued operations after tax	11,040	(30,224)								
Profit/(loss) for the period	**81,166**	**(6,207)**	**3,832**	**852**	**1,856**	**1,711**	**1,834**	**1,209**	**5,587**	**5,209**

ICCREA BANCA SPA

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

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

Financial services

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

In particular, within the scope of services aimed at supporting and developing the businesses of the mutual banks and enhancing the management of financial risks for the entire Group, the Group Finance unit has ensured: (*i*) the management of financial assets, including with the definition and recommendation of investment strategies; (*ii*) development of the system for liquidity management; and (iii) capital and money-market activities and hedging. Within this context, and taking account of the cross-guarantee scheme adopted by the ICBG, constant coverage of short and long-term funding needs and management of related interest-rate, currency and liquidity risk has been ensured at the separate and consolidated levels. Even under the current market landscape resulting from the health emergency, which has required financial-service and other operators around the world to revise and strengthen their operational mechanisms aimed at ensuring structural liquidity and adequate service levels, the role played by Group Finance has ensured the maintenance of adequate levels of structural liquidity.

With regard to liquidity management in the first half of 2021, efforts begun in previous years were continued to ensure that the affiliated banks had the capacity to obtain collateralized funding by way of operations with the ECB and on the market.

The economic and financial crisis triggered by the pandemic spurred an increase in the use of the TLTRO program, with participation in the new auctions introduced with the monetary policy decision of December 10, 2020, expanding the use of ECB funding compared with collateralized pool market operations from 65% in 2020 to 74% in 2021. Furthermore, the average liquidity held by the affiliated banks on the daily settlement account rose progressively (about €4 billion in June 2021) while that held on the reserve requirement account (about €5.7 billion in June 2021), producing an average balance on the management account at the Bank of Italy at the end of June of about €6.5 billion.

At June 30, 2021, within the scope of the T-LTRO III program, the Group held about €33 billion in operations, about €20.8 billion of which related to banks in the Iccrea TLTRO Group and €12.15 billion connected with banks with direct access to monetary policy operations. Access to collateralized funding by way of the full use of the TLTRO program has enabled ICBG banks to benefit from the new financial conditions set by the ECB in response to the crisis brought about by the spread of the COVID-19 pandemic. These conditions call for a rate, upon reaching the target for growth in lending, of -1% for the period June 24, 2020, to June 23, 2022, and equal to the average deposit facility rate until expiration of the operations.

The "over-collateral" product introduced in 2020 for the banks in the Iccrea TLTRO Group in order to benefit from a further reduction in the cost of financing offered by TLTRO operations reached a volume of eligible securities transferred to the pool of about €1 billion in June 2021.

With regard to structured finance operations, in the first half of 2021 the structuring of a Covered Bond Program was finalized to provide the ICBG with an additional channel for medium-long term funding. This Program, the first in the Italian mutual banking industry, involved Iccrea Banca as the issuer of covered bank bonds and the affiliated banks as assignors and servicers of a portfolio of primary credit quality mortgage loans pledged to secure the bonds issued. Iccrea Banca will play a management and coordination role, centralizing the ordinary management of the Cover Pool and control activities, performing, among other things, the roles of Master Servicer and Test Calculation Agent of the Program itself. The offer documentation has been submitted for approval of the *Commission de Surveillance du Secteur Financier* (CSSF) of the Grand Duchy of Luxembourg and the securities will be listed on the Luxembourg Stock Exchange.

The transfer of the initial portfolio to the SPV was completed in June 2021, while the covered bonds were issued in September 2021.

Within the context of efforts to ensure the ongoing success of Iccrea Banca structured securitization operations for the companies of the ICBG for the purpose of raising liquidity, steps have been taken to adjust the "Crediper Consumer Srl" securitization completed by BCC CreditoConsumo in December 2018 as a self-securitization for the purpose of ECB refinancing in order to enhance its credit quality.

From the start of 2021, activity on the MTS secured market (repo segment) continued to register price levels in line with and close to the marginal deposit rate (-0.50%). As at June 30, 2021, funding on this market totaled about €5 billion, of which some €3.5 billion in favor of the affiliated banks.

With regard to funding on capital markets, the placement of a senior bond denominated "Iccrea Banca Tasso Fisso Step Up - 1 July 2021 - 1 July 2026" in the amount of €150 million initiated on June 1, 2021. The placement was intended to consolidate the role of the ICBG among the

retail customers of the affiliated banks by offering a security designed to meet the investment needs of such customers. The initiative involved the participation of 91 affiliated banks as placement agents located throughout the country.

The ICBG's 2021 Funding Plan provides envisages total medium/long-term funding of €3.1 billion, primarily to cover the commercial operations of the mutual banks, of which €1 billion connected with the launch of the Covered Bond Program.

The funding plan for the companies within the direct scope envisages total funding of about €4.8 billion (€3.5 billion through the intercompany channel and about €1.3 billion through external funding), of which the structural component (medium/long term) would amount to €4 billion and the remainder, equal to €0.8 billion, would be raised with short-term forms of funding.

Within the scope of implementation of the year's funding plan, in the first half of 2021 time deposits of about €2.12 billion with an average maturity of 2.43 years were established, entirely through the affiliated banks, of which 0.325 billion at short term and 1.799 billion at medium/long term.

At June 30, 2021 the total amount of bonds issued by Iccrea Banca in circulation came to €3.27 billion, with a weighted-average residual maturity of 1.83 years.

With regard to treasury and forex operations, the Parent Company continued to support the affiliated banks by way of the forex and money market (FXMM) Internet portal, enabling them to trade in real time in spot, forward and swap transactions. The pandemic and current macroeconomic conditions did not lead to a reduction in operations in 2021, either in volume or in number of transactions. At June 30, 2021, 44,000 contracts with a total volume of around €2.6 billion had been transacted, of which €1.4 billion in swaps, €1.2 billion in spot transactions and €40 million in outright transactions. Trading also continued, with volumes totaling €90 billion, mainly in swaps.

With regard to Italian government securities, within market making operations on the Hi-MTF and EuroTLX platforms, the first six months of 2021 saw the listing of 129 securities for a total volume handled of €2.6 billion. Trading continued on the MOT market of Borsa Italiana, with a sharp increase in volumes compared with the same period of the previous year (totaling €6.5 billion). Trading on the MTS, BondVision and Bloomberg platforms reserved for institutional investors eased slightly (about 6%) over the same period, totaling €19.6 billion. As part of market making operations for eurobonds, Iccrea Banca quoted 411 eurobonds on the Hi-MTF market, 271 eurobonds on the EuroTLX market, and 142 eurobonds on ExtraMOT and MOT. Total volumes traded on these markets came to about €635 million.

With regard to transactions in OTC derivatives, Iccrea Banca negotiated contracts with a total nominal value of about €6.2 billion. In this context, 27 participating banks entered into contracts with a total notional value of about €1.9 billion with a view to hedging the interest rate risk on i) portfolios of fixed-rate loans and fixed-rate Italian government securities with a notional of about €1.3 billion; ii) government securities linked to European inflation with a notional amount of €575 million. In addition, during the first half of the year, preparatory work was begun to enable Group banks that have never operated in derivatives to execute transactions to mitigate their interest rate risk, ensuring that the boards of directors of all the Group banks approve the contracts necessary for the start of such operations.

As for Iccrea BancaImpresa, derivative contracts with a total notional value of about €164 million were concluded in support of customer operations.

With regard to operations in the Parent Company's financial portfolio, and with a view to managing and mitigating financial risk, interest-rate and/or inflation derivatives were used for hedging purposes (with a total notional of about €1.87 billion).

With regard to order transmission and execution for transactions in financial instruments by customers conducted on the domestic and foreign financial markets on behalf of the affiliated banks, the first half of 2021 was characterized by an increase of 4% in overall volumes compared with the first half of the previous year (equal to €8.8 billion). The Italian equity sector recorded volumes of €2.9 billion, an increase of 25% on the first half of 2020. The foreign equity sector posted volumes of €1.1 billion, an increase of 500% on the first half of 2020. This performance is the result of a commercial strategy that involved centralizing about 90% of the domestic and foreign equity flows of the Group asset management company with the Iccrea Banca Finance desk (Secondary Market unit). Operations in the bond sector registered a volume of €4.8 billion, a decrease of 19% compared with the previous year. This decline, recorded in both the mutual banks own transactions and those carried out for third parties, reflected a significant reduction in the yields of Italian government securities, which began in the second half of 2020 and continued through the first half of this year.

The following is of note with regard to primary market activities:

- participation in the placement on April 23, 2021 of the new BTP Futura government bonds, of which about €230 million were placed with the retail customers of the affiliated banks;
- participation in the auctions of Italian government securities (BOT, CCT, CTZ, BTP) for a total of €68.75 million;
- the placement of 4 certificates issued respectively by Mediobanca (1) in the amount of €2.8 million, Société Generale (2) in the total amount of €7.45 million and BNP (1) in the amount of €4.4 million.

These operations fall within the broader process of revising the range of products offered by the Group, which is the result of discussions with the affiliated banks of the needs of their customers and has the goal of providing an investment instrument that is able to broaden the product range and achieve greater portfolio efficiency.

Payment systems

In a context of increasingly digitalized payments and the advent of innovative solutions offered to customers by new non-banking operators, Iccrea Banca is committed to perfecting the tools made available to the Group and customers to facilitate collection and payment transactions.

The issues related to COVID continued to impact the sector, especially in the early months of the period, amplifying the decline in traditional services (such as checks and cashier's checks) and the growth of the pan-European SEPA collection and payment products (SCT, SDD).

The role played by the Parent Company in the sector involved the delivery of services on the domestic and international systems provided to the Group's mutual banks, intermediated banks and branch customers. In addition, statutory digital storage management operations and cash handling and control services (checks connected with the intermediation service, procedural tests), as well as mutual bank customer support and advisory services, continued.

At the institutional and interbank level, Iccrea Banca participates in the main working groups sponsored by ABI, CBI, CIPA, EBA, the Electronic Invoicing and Dematerialization Observatory, ANORC and AGID. In addition, under the aegis of the European Payments Council (an associative body the European banking industry in charge of managing the SEPA payments scheme and liaising with the European authorities, Iccrea Banca participates in working groups involved in the evolution of the SEPA payments system.

The main new project initiatives involving the sector include:

- T2 Consolidation and CBPR+, for the migration of T2 and Correspondent payments to ISO standards starting from November 2022;
- the digitalization of bills of exchange, an interbank project promoted by ABI after parliamentary amendment of the bill on bills of exchange, similar to previous initiatives for checks;
- updates for the 2021 release of Swift and EBA Clearing;
- standardized digital storage connected with activities related to the conservation of the journal, time stamping, verification of Agid technical rules, the management of disparities and handover and the conservation of past invoices received;
- coordination with Digital Iccrea of the activation of mutual banks on the PagoPA and individuals IBAN Check service;
- cash management connected with Cost Excellence projects, multi-bank counting room and smart safes;
- analysis of new projects emerging at the European level (request-to-pay, digital euro, SEPA one-leg out);

During the first half of the year, the following previously launched initiatives also continued:

- the definition of end-to-end process rules for the management of checks, cash and bank transfers;
- the definition of the new rate mechanism requirements for the recovery of stamp duty costs on cashier's checks and preparation of the new €500,000 denomination;
- analysis of the new "PagoPA multi-beneficiary CBILL" model for TARI and TEFA;
- functional integration analysis with the PagoPA POS service being developed on eBank;
- updating of the Gescap procedure for the management of L3 banknotes and differentiated rates for coin deliveries/withdrawals;
- analysis in the bank transfer procedure of the IBAN checks for the purpose of anti-money laundering regulations, testing and release of certification for roll out;
- functional testing, analysis of new TIPS releases, coordination with EPC for participation of mutual banks in the new instant bank transfer service;
- management of automatic signatures, mergers and handover of mutual banks and Group companies, within the Statutory Digital Storage product.

Electronic money

In the first half of 2021, Iccrea Banca continued to develop the electronic money business in order to optimize processes and strengthen its range of products and services in line with strategic policies to foster the growth of the business.

The COVID-19 emergency led to a strong acceleration of commercial offers in the acquiring sector, stimulating the market to gradually digitalize their offering of POS and related additional services. To meet the needs of the market, the ICBG has focused on a strong push to digitalize its POS fleet by offering - for all new relationships - the new 'SmartPOS Connect' instead of the traditional GPRS. The new digital POS is offered to the mutual banks at no cost for a promotional period of 6 months, after which the fee for a traditional POS arrangement will be charged. The mutual banks therefore have the opportunity to offer their customers a more advanced product at the same cost as a traditional POS.

In addition to the commercial effort to promote the POS device, work also focused on enhancing the range of bundled value-added services, including:

- the My Self Order and My Menu apps, dedicated to the restaurant sector, enabling merchants to create an app for their premises/shop where they can upload their product catalog, manage orders/delivery, digitalize the menu and accept payments;
- the My Shop app, dedicated to the retail segment, enabling merchants to create an innovative and captivating digital showcase of their business, making it accessible to customers using a QR Code;
- the Tax Free app dedicated mainly to merchants in tourist locations, which enables non-EU residents who make a payment to the merchant to obtain a refund of VAT on the purchase of goods for personal use in amounts equal to or greater than €154.95 (VAT included).

The offers above enable mutual banks to segment their offer based on the affiliated merchant.

In addition to the mainly commercial offers, the ICBG focused on completing the migration of the merchant fleet to the proprietary platform (direct acquiring). This process, which enables the elimination of the processing costs applied by Nexi, will produce overall savings in 2021 of about €6.7 million on the basis of current estimates.

As regards the issuing segment, in the first half of 2021 the CartaBCC product range was enhanced.

More specifically, the period saw the launch of the new CartaBCC Debit, a dual-circuit debit card (Bancomat MasterCard and Bancomat Visa). This product represents the natural evolution of the previous cash debt products and aligns the CartaBCC range with the offerings of the main market players in the debit card segment, both in terms of functionality and even more competitive pricing for the mutual banks.

In further developments in the debit card segment, the ICBG also joined the program for the elimination of commissions on ATM micro payments. The initiative envisages the reimbursement to merchants of all commissions applied on transactions of an amount equal to or less than €5 made with a Bancomat ATM circuit product. Consistent with the Government's cashless plan, this initiative is fully supported by Iccrea Banca and will have no operational or financial impact on the mutual banks.

With regard to the number of cards, despite the restrictions on promotional efforts connected with the COVID-19 emergency, the segment registered modest growth in the main issuing metrics, with about 4.0 million cards in operation (+1.8% on December 2020). The growth trend in the stock of participating mutual banks was appreciably more rapid, with about 145,000 new cards entering operation in the period (+4.0% on December 2020).

In terms of the volume of card and POS transactions, the first half of 2021 experienced a strong increase compared with the same period of 2020, as the effects of the COVID-19 emergency had a much more severe impact during the period of the 2020 lockdown compared with the first half of 2021. Specifically, in the first half of 2021 the increase in the issuing segment was equal to €1.5 billion (+18.5%) compared with the same period of 2020, while, the POS acquiring segment saw an increase of 32.2% compared with 2020 (+€1.8 billion).

A similar upwards trend was registered in ATM acquiring volumes (cash withdrawals), expanding by €623 million (+17.4%) compared with the first half of 2020.

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

- overall, the issuing segment (debit, prepaid and credit cards) posted a 4.0% increase in number of cards, driven mainly by debit cards (+4.0% for debit cards, +3.0% for credit cards, and +5.4% for prepaid cards);
- the acquiring segment posted a significant increase in POS volumes (+36.2%), with all the main categories registering substantial increases on the first half of 2020.

BCC SISTEMI INFORMATICI SPA

The information technology segment of the Group was mainly engaged in projects to ensure compliance with operational and legislative developments, involving the evolution of system architecture and functionality, digitalization and innovation (e.g. digital banking and the customer relationship), management of core processes, the ongoing convergence of the affiliated banks using technical services providers other than BCCSI with the proprietary structure and the management of merger processes.

With specific regard to the program to migrate the mutual banks to the information system of BCC SI, the first half of 2021 saw the completion of the migration of six mutual banks. The migration of a further six banks is planned in the second half of the year.

Specific project streams were also directed at the evolution of the BCC SI Target system, as summarized below.

Sicra Web Roll-Out. As part of the SicraWeb project, the roll-out of the new information system relies on a task force to support banks in the configuration and installation phases and in post start-up operation. The roll-out model envisages that the bank unit shall play an orchestrating role in all the adjustment and verification activities necessary for the launch of SicraWeb. An initial group of 26 banks was completed. A further 32 banks have already been identified and will be activated by the end of this year.

Market Applications and CRM Roll-Out. As part of the Market applications and associated roll-out phase, 65 mutual banks have been activated. During the first half of 2021, evolutionary measures were also made available to support banks in managing customer segmentation and portfolios, as well as the organizational model of the mutual banks. In the second part of this year, the banks that have completed the upgrade of the technology infrastructure (Office365), a prerequisite for the correct functioning of the platform, will be progressively activated.

FIN-CAD Turnaround project: this initiative is intended to implement a single operational and technological model for handling securities post-trade operations at the Group level, both for proprietary finance and for the retail customers of the mutual banks, enabling an integrated end-to-end process. A feasibility study was carried out, preparing the way for the design the target macro-architecture, the main operating processes and the definition of the costs, methods, risks and implementation times of the new CAD solution. The activities were launched during the first half of the year.

Evolution of the Wealth Management Platform (WMP) Consultant: BCC SI is directly involved alongside BCC Risparmio e Previdenza in the creation of an application module for advisory services integrated with the new customer relationship front-end, which comprises the entire production process connected with wealth management advisory services that the mutual banks provide to companies and/or individuals. The functional coverage envisages the following areas: financial investments (asset management and administration), risk coverage (bancassurance) and pension solutions.

Evolution of the IDD Platform (Insurance Distribution Directive): the implementation of evolutionary, applicative and architectural upgrades of the IDD platform has begun, including: receipt and processing of flows from the companies with the aim of monitoring policy sales activity and consistency with the IDD assessment carried out in the procedure; quantitative monitoring, access to the platform by insurance companies; catalog management of equivalent products; management of the profiling of the ARTs; migration to Oracle database; and graphical restyling of the procedure.

IBIPS (Insurance-based Investment Products): management of COINCO ex-ante and COSTI ex-post. Work began on upgrading the application, which will enable the automated management of ex-ante and ex-post costs for IBIPS products.

Various projects are under way in the anti-money laundering area to improve the efficiency of processes. The main initiatives involved:

- the integration and development of the Bank of Italy self-assessment model for the entire ICBG, with the following objectives: creation of a money laundering risk self-assessment system for the ICBG; integration/evolution of the Group self-assessment model, with preparation of an extractor/process that identifies customers at irrelevant risk that can renew without being present;
- the definition and management of a Group database of undesirable parties, periodically updated and available for consultation through the customer details application.
- the application of machine learning and pattern analysis systems to reduce false positives in the analysis of automatic alerts of anomalous (unexpected) transactions, with a consequent reduction in the manual operations of branches.

Lending initiatives include those relating to the revision of the model for monitoring and managing anomalous and UTP positions within the electronic loan processing system with the aim, among other things, of eliminating the current operational/management issues; improving support for associated management processes (facilitating activities to reduce the deterioration of positions into NPL status); ensure greater compliance with regulatory requirements and more effective guidance and monitoring capacity at the Parent Company.

The other most significant initiatives include:

- Risk-Weighted Amount: implementation – using a specific calculation algorithm and with criteria shared by the entire ICBG - of the risk-weighted amount mechanism for each customer credit line, which brings together various sources of information (nominal amount, rating, guarantees, weighting coefficient);
- Credit Opinion Wave 2: completion of the process of integrating and issuing credit opinions for the companies within the direct scope and the mutual banks and integration with the risk-weighted amount strategy. The initiative involves the implementation of the

calculation of the Group's accumulated risk through the Strategy One engine and an escalation mechanism directing "big ticket" positions to the Parent Company through the Appian workflow application.

ICT Security initiatives: the initiatives, coordinated by the Security Task Force (STF) with the participation of the control functions of the Parent Company, have involved new measures concerning audit follow-up, ICT compliance and the risk treatment plan:

- revision and updating of company rules on software development, change management, incident management, management of telecommunications networks, management of security events, data storage, cryptographic activities, software licenses, technology assets, access logic;
- extension of data loss prevention tools to include non-PCIDSS assets;
- drafting of the list of critical Sepa Credit Transfer procedures and periodic vulnerability assessment plan;
- increasing security levels for service access (FTP, HTTP, VPN);
- updating of system administrators and control of system access procedures;
- increasing level of monitoring of accesses of production databases and definition of procedure for managing application access profiles;
- raising security levels in local IT for mutual banks converging towards the infrastructure services provided by the Group.

RETAIL BUSINESS AREA

Balance sheet

€/thousands	RETAIL							
	Mutual banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2021	31/12/2020	30/06/2021	31/12/2020	30/06/2021	31/12/2020	30/06/2021	31/12/2020
Cash and cash equivalents	706,971	781,904	1	2	1	0	651	1,218
Financial assets measured at fair value through profit or loss	1,511,762	1,583,803	-	-	6,265	6,272	233	297
Financial assets measured at fair value through other comprehensive income	8,725,453	9,000,584	-	-	3	3	1,855	1,848
Financial assets measured at amortized cost	143,452,934	138,219,979	1,033,130	1,192,454	65,381	65,301	544,539	510,953
a) due from banks	17,361,916	15,356,249	79,104	273,684	30,141	36,405	329,232	329,838
b) loans to customers	76,920,462	75,145,087	954,026	918,770	35,240	28,897	149,203	110,161
c) securities	49,170,557	47,718,643	-	-	-	-	66,105	70,954
Hedging derivatives and value adjustments of macro-hedged financial assets	145,071	222,986	-	-	-	-	-	-
Equity investments	38,563	38,563	-	-	-	-	-	-
Property, plant and equipment	1,972,737	1,996,668	69	114	4,426	4,494	32,466	31,511
Intangible assets	23,191	25,052	1,782	1,907	2,450	3,092	673	678
Tax assets	1,567,629	1,683,011	7,799	10,200	1,162	1,528	56,596	58,358
Non-current assets and disposal groups held for sale	17,040	18,368	-	-	-	-	22,776	41,721
Other assets	1,635,706	976,221	107,350	102,065	6,648	2,442	22,847	31,096
Total assets	**159,797,057**	**154,547,140**	**1,150,132**	**1,306,742**	**86,337**	**83,133**	**637,085**	**677,680**

€/thousands	RETAIL							
	Mutual banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/06/2021	31/12/2020	30/06/2021	31/12/2020	30/06/2021	31/12/2020	30/06/2021	31/12/2020
Financial liabilities measured at amortized cost	144,184,971	141,016,360	1,063,693	1,208,687	33,571	28,381	409,457	428,315
a) due to banks	31,670,896	32,339,044	1,050,748	1,195,664	33,486	28,311	307,694	303,076
b) due to customers	103,024,790	98,094,881	12,945	13,023	85	69	96,382	103,713
c) securities issued	9,489,286	10,582,435	-	-	-	-	5,380	21,526
Financial liabilities held for trading	1,400	2,019	-	-	-	-	-	-
Financial liabilities designated as at fair value	676	3,117	-	-	-	-	-	-
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	261,650	338,315	-	-	-	-	-	-
Tax liabilities	50,536	94,253	-	-	371	179	758	840
Liabilities associated with disposal groups held for sale	-	-	-	-	-	-	73,755	90,660
Other liabilities	4,345,631	2,442,439	16,766	22,397	14,099	16,311	16,615	18,869
Post-employment benefits	250,133	265,117	210	293	258	348	468	636
Provisions for risks and charges	406,411	401,143	98	82	3,617	4,151	9,376	10,453
Equity	9,978,651	9,707,195	62,712	61,833	25,868	25,851	127,933	125,669
Profit/(loss) for the period (+/-)	316,998	277,181	6,654	13,450	8,552	7,913	(1,276)	2,237
Total liabilities and equity	**159,797,057**	**154,547,140**	**1,150,132**	**1,306,742**	**86,337**	**83,133**	**637,085**	**677,680**

Income statement

€/thousands	RETAIL							
	Mutual banks		BCC CreditoConsumo		BCC R&P		Banca Sviluppo	
	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020
Net interest income	1,178,787	1,048,811	23,072	23,510			4,149	6,672
Net fee and commission income	549,984	512,906	1,651	2,328	24,491	18,717	439	1,974
Dividends	7,557	4,643			9	12	2	
Bet gain/(loss) on trading activities	4,069	1,745						(5)
Net gain/(loss) on hedging	(254)	116						2
Net gain/(loss) on disposals	230,580	170,040		(3)			32	(65)
Net gain/(loss) on assets and liabilities at FVTPL	3,081	(8,680)			(45)	(93)	163	(27)
Gross income	**1,973,804**	**1,729,582**	**24,722**	**25,835**	**24,455**	**18,637**	**4,786**	**8,552**
Net writedowns/writebacks for credit risk	(321,078)	(282,797)	(5,446)	(12,583)	-	-	(1,694)	(1,747)
Net gains/(losses) from financial operations	**1,652,726**	**1,446,785**	**19,277**	**13,252**	**24,455**	**18,637**	**3,091**	**6,805**
Administrative expenses	(1,344,183)	(1,261,829)	(9,843)	(8,089)	(11,992)	(9,977)	(4,669)	(10,250)
a) personnel expenses	(695,598)	(680,020)	(2,549)	(2,886)	(2,614)	(2,616)	(1,925)	(5,749)
b) other administrative expenses	(648,585)	(581,809)	(7,294)	(5,202)	(9,378)	(7,360)	(2,744)	(4,501)
Depreciation, amortization and provisions	(107,464)	(121,289)	(312)	(164)	(322)	(1,868)	(612)	(184)
Other operating expenses/income	133,399	141,489	705	1,118	(42)	245	469	1,764
Operating expenses	**(1,318,249)**	**(1,241,629)**	**(9,451)**	**(7,135)**	**(12,356)**	**(11,600)**	**(4,812)**	**(8,671)**
Profit/(loss) from equity investments		(381)						
Profit/(loss) from disposal of investments	48	(328)						(18)
Net gain/(loss) from FV measurement of property, plant and equipment and intangible assets		(130)						
Impairment of goodwill	(2,058)	(259)						
Profit/(loss) before tax on continuing operations	**334,525**	**204,057**	**9,826**	**6,117**	**12,098**	**7,037**	**(1,720)**	**(1,884)**
Income tax expense from continuing operations	(17,527)	(41,468)	(3,172)	(2,286)	(3,546)	(2,251)	444	(522)
Profit/(loss) on discontinued operations after tax								
Profit/(loss) for the period	**316,998**	**162,589**	**6,654**	**3,831**	**8,552**	**4,785**	**(1,276)**	**(2,406)**

AFFILIATED BANKS

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

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

Balance sheet

The structure of the mutual banks' balance sheets 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 130 mutual banks belonging to the Iccrea Cooperative Banking Group as at June 30, 2021, presented in aggregate form and gross of intercompany items.

Total assets as of June 30, 2021amounted to €159.8 billion, an increase of €5.2 billion compared with December 31, 2020, with the rise being essentially attributable to the increase in financial assets measured at amortized cost.

More specifically, financial assets measured at amortized cost increased by €5.2 billion to €143.5 billion and consist of:

- loans to customers totaling €76.9 billion (+€1.8 billion compared with the end of 2020), mainly represented by loans to customers (€64.8 billion), current accounts (€6.1 billion), other financing (€4.8 billion) and transactions involving credit cards, personal loans and loans repaid by automatic deductions from wages (€0.7 billion);
- amounts due from banks of about €17.4 billion, an increase of €2 billion compared with 2020. The item consists of fixed-term deposits of €12.2 billion, with the remainder being composed of current accounts and demand deposits (€4.5 billion) and claims on central banks (€0.7 billion), essentially representing the reserve requirement;
- debt securities amounting to €49.2 billion, represented by €48 billion in securities with customers (largely Italian government securities, which increased by €1.5 billion compared with 2020, reflecting in part the increase in recourse to TLTRO operations) and securities issued by banks in the amount of €1.2 billion (essentially unchanged on 2020).

The characteristics of the mutual banks' business model is reflected primarily by the type of customers served. Total loans to mutual bank customers were made largely to consumer households and SMEs (34.3 % and 40.9% of total lending, respectively).

The aggregate NPL ratio stood at 7.4%, while the coverage ratio for impaired loans was 56.3% (55.3% at December 31, 2020). 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 5.4% and 7.9%, respectively) thanks to our better understanding of these types of customers. The share of loans to larger firms was more limited (10.7% of the total) and had a higher NPL ratio.

Counterparties	Ratio to total loans and advances	Performing loans and advances		Non-performing loans and advances		
		Ratio to total loans by counterparty	Percentage of total performing loans of the affiliated banks	Ratio to total loans by counterparty	Ratio to total NPLs of the affiliated banks	Coverage NPL
Ordinary customers	85.9%	91.4%	84.7%	8.6%	100.0%	56.3%
Consumer households	34.3%	94.6%	35.1%	5.4%	24.9%	44.8%
Small and medium-sized enterprises	40.9%	92.1%	40.7%	7.9%	43.3%	54.8%
Producer households	8.6%	90.8%	8.4%	9.2%	10.6%	51.3%
Micro-enterprises, institutions and associations	8.3%	89.3%	8.0%	10.7%	11.9%	57.5%
Other SMEs	24.1%	93.6%	24.3%	6.4%	20.7%	55.0%
Large corporate	10.7%	74.5%	9.0%	25.5%	31.8%	67.4%
Government entities	0.8%	99.8%	0.8%	0.2%	0.0%	81.4%
Central banks, credit institutions and other financial companies	13.4%	99.7%	14.4%	0.3%	0.0%	79.6%
Total	**100.0%**	**92.6%**	**100.0%**	**7.4%**	**100.0%**	**56.3%**

Financial investments totaled about €56.4 billion[16] and consist almost entirely of government securities (especially those issued by the Italian State). Of these, 87.2% are allocated to the portfolio measured at amortized cost (Hold-to-Collect, HTC, business model) in line with the traditional business model that characterizes these banks, in order to take advantage of the coupon yield and at the same time to not expose

[16] The aggregate includes securities measured at amortized cost and financial assets measured at fair value through other comprehensive income and through profit or loss.

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.

The portfolio of financial assets measured at fair value through other comprehensive income, represented almost entirely by Italian government securities, amounted to about €8 billion, down €1 billion compared with the previous year. Financial assets measured at fair value through profit or loss amounted to more than €1.5 billion, slightly down on 2020, and are almost entirely represented by financial assets mandatorily measured at fair value (which also include receivables in respect of the Parent Company for the Ex-Ante contribution to the Guarantee Scheme) and assets held for trading amounting to €19.3 million.

Finally, other relevant items include property, plant and equipment - which amounted to about €2 billion and mainly includes land and buildings for use in operations (€1.4 billion) and other capital equipment - while intangible assets amounted to just €23 million, of which €6.8 million in goodwill paid on the acquisition of bank branches before the formation of the ICBG.

Strong ties with the territory are also reflected in the composition of liabilities, with a large proportion of direct funding from customers, especially current accounts and demand deposits, and to a lesser extent bonds and certificates of deposit.

Accordingly, liabilities largely consist of financial liabilities measured at amortized cost, which amounted to €144.2 billion, up about €3.2 billion on the previous year. More specifically:

- amounts due to customers increased by €5 billion to €103 billion. Of the total, €95.9 billion consist of current accounts and demand deposits (+€4.6 billion on 2020) and €5.7 billion of fixed-term deposits;
- amounts due to banks decreased by €0.7 billion on the previous year to €31.7 billion, mainly attributable to loans obtained through T-LTRO operations and refinancing transactions with the Parent Company;
- securities issued came to €9.5 billion, a decline of €1 billion due to maturing securities. Of the total, €4.3 billion are represented by bonds and €5.2 billion by certificates of deposit.

The aggregate equity of the mutual banks amounted to €10.2 billion and consists of nearly €1 billion of share capital, with the rest made up of reserves.

Income statement

The aggregate income statement of the affiliated banks closed the period with a profit of €317 million, up €154 million on the first six months of 2020.

More specifically, gross income increased by €244 million to €2 billion, the result of (i) an increase in net interest income (+€130 million compared with June 2020), largely attributable to the increase in interest income on TLTRO loans bearing negative rates; (ii) an increase in the net fee and commission income of €37 million, reflecting in part the general recovery of the economy compared with the period of the lockdown last year; and (iii) an improvement in the overall performance of finance operations (up €77 million from €168 million the previous year to €245 million, largely attributable to capital gains on the sale of government securities).

Net writedowns for credit risk amounted to €321 million, an increase of €38 million compared with the first half of the previous year.

Operating expenses amounted to about €1.3 billion, a slight increase compared with June 30 last year.

Net profit for the period reflected taxation of €17 million, a reduction of €23.9 million than that recorded in the first half of 2020.

BCC CREDITOCONSUMO SPA

During the first half of the year, the company continued to distribute consumer-credit products (personal loans exclusively) through the branches of the mutual banks (at June 30, 2021 the mutual banks with distribution agreements numbered 178) and the Internet, which makes it possible - thanks to the Crediper.it website - to a form to submit online loan applications.

Output in the first half of the year registered a sharp increase to €232.6 million (+59%) compared with the same period of the previous year (€146.3 million at June 30, 2020). This result, set against the ongoing macroeconomic recovery, outpaced the performance recorded by the personal loan market as a whole (+31.0% compared with the same period of the previous year, according to ASSOFIN data).

The following table breaks down the composition of gross consumer lending as at June 30, 2021 by credit quality, with an indication of the associated writedowns and percentage of coverage:

€/thousands

Classification	Gross amount	Writedowns	% coverage	*Average market coverage in 2020*
Performing	978,444	31,667	3.24%	3.40%
Impaired past due	9,890	5,112	51.69%	62.40%
Unlikely to pay	3,754	2,523	67.22%	67.00%
Bad loans	44,466	43,392	97.58%	83.00%
Total	**1,036,554**	**82,694**	**7.98%**	
average % coverage of impaired positions			***87.81%***	***77.20%***

As of June 30, 2021 there was a sharp decrease (-€7.1 million) in writedowns of financial assets compared with the same period of the previous year, confirming a trend in the cost of risk in line with pre-crisis dynamics.

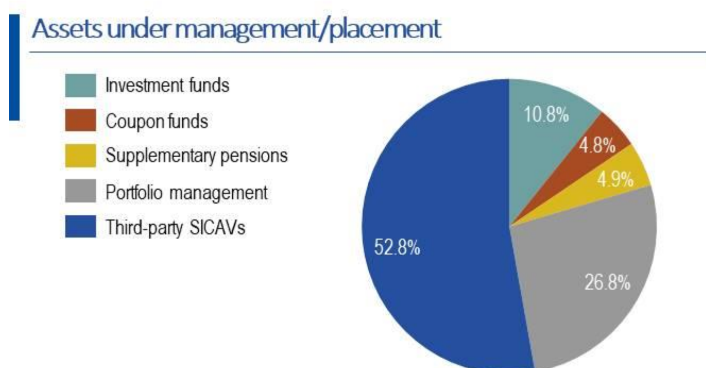
Net profit after tax at June 30, 2021 came to €6.65 million (€9.83 million before tax).

BCC RISPARMIO&PREVIDENZA SGRPA

Assets under management

At June 30, 2021, total assets managed or placed by BCC Risparmio & Previdenza amounted to €21 billion, an increase of €2.2 billion compared with the end of 2020. Total net funding came to €1.9 billion, and the market effect was positive, contributing some €289 million to the increase in assets. Positive funding from third-party SICAVs, asset management and pension funds was partially offset by the outflow of subscribers of coupon funds (mainly linked to approaching maturities and the related distribution of income).

The chart below shows the weight of each investment product out of total assets under management as at June 30, 2021.



Income statement

The period ended with pre-tax profit of €12.01 million (€8.5 million after tax), up 72% from the €7 million posted in 2020. Net fee and commission income rose to €24.5 million (+€5.7 million on the previous year, +30.8%) due to an increase in assets under management/placement and in performance fees (€4.2 million in 2021, up €2.9 million from the previous year). Management fees passed through to placement agents, primarily the Group's mutual banks, increased from €52.6 million to €63.5 million (+20.7%). Operating expenses increased by €0.8 million to €12.3 million compared with the first half of 2020 (+6.5% annually), due primarily to administrative expenses mainly connected with new projects, as personnel costs were stable.

BANCA SVILUPPO SPA

Consistent with the Strategic Plan, in 2021 Banca Sviluppo has continued to pursue the objective of completing the disposal of its sales network, which has been delayed in its final stages by the need for of the transferee mutual banks to collect pre-approvals to open a secondary office under the special rules governing mutual banks and consequent time required to obtain authorization from the supervisory authorities. As part of the project of disposal above mentioned, on June 5, 2021 the sale of the branches of Santo Stefano di Camastra, Sant'Agata di Militello and Capo d'Orlando to BCC di Longi was completed and all the activities necessary for the completion of the other branch divestment operations were carried out, providing for:

- the sale of the Messina branch, definitively planned for July 17;
- the sale of the Satriano and Tito branches to BCC Basilicata, scheduled for the end of the year-beginning of 2022.

At the end of the first half of 2021, the Bank had therefore shrunk significantly (to 4 branches), with total funding of €196 million and loans of €108 million, volumes mainly concentrated in the Rome branch.

Income statement

The income statement at June 30, 2021 shows a pre-tax loss of €1.7 million and a net loss of €1.3 million after taxes. In general, the first half of 2021 was impacted by adverse economic conditions and, at the same time, the contraction in volumes as a result of the divestment of branches.

CORPORATE BUSINESS AREA

The corporate business area is composed of the Iccrea Banca SpA's subsidiaries that offer solutions to small and medium-sized enterprises and to local government entities that are customers of the affiliated mutual banks. These companies provide a wide range of products and services to meet 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 Banca Mediocredito del Friuli Venezia Giulia.

Balance sheet

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020
Cash and cash equivalents	6	10	2	2	2	2	176	1
Financial assets measured at fair value through profit or loss	40,210	40,143					24,519	25,253
Financial assets measured at fair value through other comprehensive income	283	283			11	11	83,937	95,872
Financial assets measured at amortized cost	4,095,885	4,240,521	499,302	471,914	389,405	478,248	915,943	906,603
a) due from banks	21,890	34,433	3,233	3,158	4,671	1,602	231,953	176,551
b) loans to customers	4,073,995	4,206,087	496,069	468,756	384,734	476,647	472,611	523,444
c) securities							211,380	206,608
Hedging derivatives and value adjustments of macro-hedged financial assets								
Equity investments	25,750	25,750						
Property, plant and equipment	9,613	9,637	126	129	80	104	10,107	10,658
Intangible assets			310	365	92	122	367	391
Tax assets	178,423	184,718	4,557	5,025	7,191	7,444	44,728	46,213
Non-current assets and disposal groups held for sale		3,360,302						
Other assets	72,088	150,608	12,130	11,454	2,932	5,693	8,103	5,928
Total assets	**4,422,259**	**8,011,973**	**516,426**	**488,888**	**399,712**	**491,624**	**1,087,882**	**1,090,919**

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020	30/6/2021	31/12/2020
Financial liabilities measured at amortized cost	3,549,736	3,741,326	466,558	436,615	366,438	464,230	940,001	928,913
a) due to banks	3,381,441	3,492,691	462,904	432,898	362,213	459,664	396,952	359,814
b) due to customers	168,295	248,635	3,653	3,718	4,224	4,566	518,079	543,632
c) securities issued							24,970	25,467
Financial liabilities held for trading	29,611	39,570						
Financial liabilities designated as at fair value								
Hedging derivatives and value adjustments of macro-hedged financial liabilities (+/-)	8,181	10,140						
Tax liabilities			507	39			219	1,622
Liabilities associated with assets held for sale		3,332,948						
Other liabilities	91,258	113,746	11,479	12,925	12,116	6,095	46,951	43,205
Post-employment benefits	1,461	1,933	158	209	373	389	273	278
Provisions for risks and charges	32,432	59,458	137	147	1,160	1,833	5,076	21,077
Equity	712,944	732,078	30,729	29,816	19,085	20,886	95,739	98,801
Profit/(loss) for the period (+/-)	(3,365)	(19,227)	6,858	9,137	540	(1,809)	(377)	(2,976)
Total liabilities and equity	**4,422,259**	**8,011,973**	**516,426**	**488,888**	**399,712**	**491,624**	**1,087,882**	**1,090,919**

Income statement

€/thousands	CORPORATE							
	Iccrea BancaImpresa		BCC Lease		BCC Factoring		MCFVG	
	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020	30/6/2021	30/6/2020
Net interest income	46,801	72,243	11,686	5,348	1,915	1,774	5,567	4,596
Net fee and commission income	676	6,252	(236)	(223)	1,559	1,286	2,539	2,594
Dividends	8,224	8,467						
Net gain/(loss) on trading activities	2,064	1,278			14	2	122	(43)
Net gain/(loss) on hedging	174	119						
Net gain/(loss) on disposals	12						1,567	102
Net gain/(loss) on financial assets and liabilities at FVTPL	(1,023)	(2,988)					(730)	(415)
Gross income	**56,929**	**85,371**	**11,450**	**5,124**	**3,488**	**3,063**	**9,065**	**6,835**
Net writedowns/writebacks for credit risk	(38,677)	(72,846)	(718)	(1,184)	447	(142)	(5,084)	(3,672)
Net gains/(losses) from financial operations	**18,252**	**12,525**	**10,732**	**3,940**	**3,935**	**2,921**	**3,981**	**3,162**
Administrative expenses	(22,045)	(29,624)	(5,211)	(2,097)	(3,886)	(3,381)	(6,435)	(6,148)
a) personnel expenses	(5,405)	(17,098)	(1,456)	(756)	(1,779)	(1,849)	(2,610)	(3,229)
b) other administrative expenses	(16,640)	(12,525)	(3,755)	(1,341)	(2,108)	(1,532)	(3,825)	(2,920)
Depreciation, amortization and provisions	(125)	(2,518)	(76)	(43)	619	(220)	(36)	(173)
Other operating expenses/income	(2,124)	(4,384)	3,185	1,318	125	(19)	201	62
Operating expenses	**(24,294)**	**(36,525)**	**(2,102)**	**(822)**	**(3,142)**	**(3,620)**	**(6,270)**	**(6,260)**
Profit/(loss) from equity investments		(738)						
Profit/(loss) from disposal of investments								
Net result of fair value measurement of property, plant and equipment and intangible assets								
Goodwill impairment								
Profit/(loss) before tax on continuing operations	**(6,042)**	**(24,738)**	**8,630**	**3,119**	**794**	**(699)**	**(2,289)**	**(3,098)**
Income tax expense from continuing operations	2,676	587	(1,772)	(330)	(254)	(38)	1,912	(102)
Profit/(loss) after tax on discontinued operations								
Profit/(loss) for the period	**(3,365)**	**(24,151)**	**6,858**	**2,789**	**540**	**(737)**	**(377)**	**(3,199)**

ICCREA BANCAIMPRESA SPA

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

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

As part of the reorganization of the Group's corporate area, effective as of January 1, 2021, Iccrea BancaImpresa transferred its lending business unit not including leasing, foreign business and internationalization, and consulting in the fields of extraordinary corporate finance and support in accessing subsidies and incentives to Iccrea Banca. The interests held in BCC Factoring and Banca Mediocredito del Friuli Venezia Giulia were also transferred to Iccrea Banca at the same time.

The operations transferred included loans, other financial assets (units of investment funds, asset-backed securities, equity investments acquired through loan recovery action), the equity investments in BCC Factoring, MedioCredito del Friuli Venezia Giulia and BCC Sistemi Informatici, rights of use in respect of car leases and leases of accommodations for the personnel involved in these operations.

The centralization of the transferred operations with the Parent Company is intended to reduce the overlap with Iccrea Banca in the granting and management of lending to firms, benefiting from the centralization of the development of the products offered both by Iccrea Banca and Iccrea BancaImpresa, strengthening the specialized development of particular technical forms of credit and customer segments. Synergies and efficiencies will also be generated within the typical phases of the lending process, in particular loan origination and the management of non-performing positions. Following these changes, finance lease activities continue to be performed by Iccrea BancaImpresa, with a view to setting up a product company focused on this specific technical form of credit with the aim of providing specialist support in lease products to the affiliated banks.

Balance sheet

New lending - 91% produced through the mutual banks – was linked exclusively to leases. In the first half of 2021, new credit showed an overall increase of 82% compared with 2020 and amounted to €284 million (over 1,400 new contracts). The increase reflected the generalized expansion in the leasing industry, as underscored by data produced by Assilea for the first half of 2021, although the growth significantly outpaced the sector average (+39.2% in the number of contracts and +48.4% in volumes financed). Equipment leasing represented over 67% of new production, followed by 22% of the industrial license plate. Compared to 2020, the instrumental product grows by 127% and the heavy license plate by 48%.

Product line	Lease volumes							
	June 2021		June 2020		Comp. % 2021		Annual change	
	Number	Amount	Number	Amount	% Num	% Val	% Num	% Val
Auto	70	5,769	28	2,125	4.9%	2.0%	150.0%	171.5%
Industrial vehicles	319	37,956	223	25,598	22.2%	13.4%	43.0%	48.3%
Equipment	968	178,432	411	78,532	67.3%	62.8%	135.5%	127.2%
Nautical	5	2,955	2	1,100	0.3%	1.0%	150.0%	168.6%
Property	76	58,968	75	48,843	5.3%	20.8%	1.3%	20.7%
Total leasing	**1,438**	**284,080**	**739**	**156,198**	**100.0%**	**100.0%**	**94.6%**	**81.9%**

€/thousands

Of the bank's total lending portfolio, about 91% is attributable to non-financial companies given the company's business model and, following the transfer of its other operations, about 99% of the portfolio was in the form of lease credit and outstanding contracts.

The comparative figures for 2020 also include the amounts in respect of the operations transferred, which total €3.2 billion.

	30/06/2021	31/12/2020	% change
1. Debt securities		143,253	-100.0%
b) Other financial companies		93,303	-100.0%
c) Non-financial companies		49,950	-100.0%
2.Financing to:	4,073,995	7,267,543	-43.9%
a) Government entities	133,637	131,418	1.7%
b) Other financial companies	22,826	134,200	-83.0%
of which: insurance undertakings	585	751	
c) Non-financial companies	3,727,436	6,698,415	-44.4%
d) Households	190,096	303,510	-37.4%
Total	**4,073,995**	**7,410,796**	**-45.0%**

	30/06/2021	31/12/2020	% change
Financing	4,073,995	7,267,543	-43.9%
1.1. Current accounts		89,589	-100.0%
1.3. Medium/long-term loans	12,882	2,728,890	-99.5%
1.5. Lease credit	3,879,295	3,998,221	-3.0%
1.7. Other lending	181,818	450,843	-59.7%
Debt securities	-	143,253	-100.0%
1.2. Other debt securities	-	143,253	-100.0%
Total	**4,073,995**	**7,410,796**	**-45.0%**

With regard to the impaired portfolio, de-risking activities continue both through disposals, part of which were already carried out in the first half of 2021, and with prudent assessment valuation policies, giving due consideration to macroeconomic conditions. At June 30, 2021, the coverage ratio stood at 63.3%, up on the 57.1% registered at the end of 2020, while the gross NPL ratio was 16.1% (at December 31, 2020 that for the lease portfolio alone was equal to 16.3%).

Income statement

The bank closed the first half of 2021 with a loss before tax of €6 million (compared with a loss of €24.7 million in the first half of 2020). After tax, it registered a net loss of €3.4 million. At June 30, 2021, interest income amounted to €54.7 million, compared with €97.7 million (of which €59.5 million in respect of the lease portfolio) in the corresponding period of 2020, a decrease of 44% basically linked to the transfer of non-lease lending operations. The decrease in interest income (-44%) was accompanied by an even larger decline in interest expense (-69%) to €7.9 million, compared with €25.4 million in the year-earlier period. In addition to the sale of lending operations, the decrease in interest expense also reflected an improvement in the cost of funding recognized by the Parent Company as early as the second half of 2020. Gross income came to €57 million, compared with €85 million at June 30, 2020.

One effect of the sale of the lending operations was a decrease in personnel expenses (which stood at €5.4 million, compared with €17 million in the corresponding period of 2020) and a concomitant increase in other administrative expenses, which went from €12.5 million in the first half of 2020 to €16 million in the first half of this year, reflecting the expansion of services centralized at the Parent Company.

Impairment losses on loans amounted to €38 million, compared with the €73 million reported at June 2020. With regard to the lease portfolio alone, impairment losses in the first half of 2020 amounted to €31 million.

BCC LEASE SPA

BCC Lease operates in the various leasing segments typical of the small-ticket market with businesses, offering operating and finance leases and specific purpose loans.

Despite the persistence of the uncertainties engendered by COVID-19, the period was characterized by satisfactory performance in both commercial and financial terms.

The period ended with over 11,500 contracts signed with a total value of €129.8 million (compared with about 8,400 contracts and €88.4 million in the first half of 2020), essentially returning new business back to pre-COVID-19 volumes. Developments in new lease operations are summarized in the following table:

Amounts in €/thousands	New contracts					
	First half 2021		First half 2020		% change	
	No.	Amount	No.	Amount	No.	Amount
Equipment vendor						
Operating leases	4,962	38,240	3,785	28,119	31.1%	36.0%
Equipment leasing	2,188	34,097	1,450	20,515	50.9%	66.2%
Special-purpose financing	3,466	28,738	2,518	22,196	37.6%	29.5%
Total vendor	**10,616**	**101,076**	**7,753**	**70,831**	**36.9%**	**42.7%**
Mutual banks						
Light commercial vehicle leasing	408	13,204	272	7,865	50.0%	67.9%
Equipment leasing	323	6,914	209	4,403	54.5%	57.0%
Heavy vehicle leasing	34	2,047	21	905	61.9%	126.0%
Total mutual banks	**765**	**22,165**	**502**	**13,173**	**52.4%**	**68.3%**
Other						
Light commercial vehicle leasing – Agents	104	3,484	65	2,802	60.0%	24.4%
Heavy vehicle leasing – Agents	64	3,101	41	1,674	56.1%	85.2%
Total other	**168**	**6,585**	**106**	**4,476**	**58.5%**	**47.1%**
Total	**11,549**	**129,827**	**8,361**	**88,480**	**38.1%**	**46.7%**

As of June 30, 2021, trade receivables net of writedowns amounted to €499 million, compared with €473 at the end of December 2020.

On the risk front, the gross NPL ratio came to 3.9% with a coverage of 73.9% (net NPL ratio of 1%).

Profit before tax for the first half of the year amounted to €8.6 million, compared with €4.4 million in 2020. Net profit came to €6.8 million, against €4.2 million in the first half of last year (+62%). Gross income stood at €11.5 million, up 12.3% compared with the first half of 2020, thanks to both the increase in interest income and the decline in the cost of funding.

BCC FACTORING SPA

The period closed with a profit before tax of €0.8 million (€0.5 million after tax). The growth in turnover of 9.4% compared with the same period of 2020 drove a substantial increase in fee and commission income, which outpaced the growth in volumes, thanks to the strong commercial drive to recoup margins.

Balance sheet

In response to the increase in the Company’s turnover, the company's total assets, which are almost entirely in loans to customers, came to €389 million, a sharp increase on the €275 million posted at June 30, 2020, although ordinary seasonal variations caused the aggregate to decline from the €478 million registered at the end of 2020.

Income statement

Gross income rose by €0.4 million to €3.5 million (+13.9% on the first half of 2020), reflecting an increase in both net interest income and net fee and commission income. Administrative expenses increased by €0.6 million overall, mainly as a result of charge-backs for centralized services provided by the Parent Company. By contrast, personnel expenses fell slightly. The income statement was also affected by the positive impact of writebacks of provisions for risks recognized made in past years and a writeback of the ECL on performing positions.

BANCA MEDIOCREDITO FVG SPA

Banca Mediocredito del Friuli Venezia Giulia SpA specializes in mainly medium and long-term loans and is also responsible for loans granted under subsidized financing instruments that the Region of Friuli (in part under Revolving Funds) and other public entities have made available to businesses. New lending disbursed to businesses in the Friuli–Venezia Giulia region in the first half of 2021 totaled €82.5 million, of which €23 million related to non-subsidized lending with the remainder being in lending based on third-party funds.

Balance sheet

Total assets at June 30, 2021 came to €1.1 billion, of which €473 million in loans to customers (a decrease of about €50 million from the end of 2020), about €320 million in financial assets and the remainder in amounts due from banks (about €232 million) and tax assets (at just under €45 million),

Net performing loans totaled €439 million, down 9% compared with the end of 2020. Similarly, impaired exposures decreased by 8.7% (€82.4 million at June 30, 2021) as a result of extinguishments totaling about €10 million, The NPL ratio was 15.5%.

Direct funding from customers came to €318 million, a decrease of 6% from the end of 2020. The reduction reflected the impact of a specific strategy to restructure interest-bearing liabilities and reduce the cost of funding.

Income statement

At June 30, 2021, the income statement again showed a pre-tax loss of €2.3 million (compared with a loss of €3.1 million at June 30, 2021) and a net loss of €0.4 million after a positive tax effect.

Gross income amounted to €9.1 million, an increase of €2.2 million, mainly reflecting a decrease in interest expense (€1 million), an increase in gains on sales of financial assets (+€1.5 million), partially offset by the negative impact of financial assets mandatorily measured at fair value (-€0.7 million). Operating expenses were unchanged.

Impairment losses on loans totaled €5 million.

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

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 (BCC Pay SpA), which was established on December 20, 2018 — in application of IFRS 5, in the separate financial statements of Iccrea Banca at June 30, 2021, the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items for assets held for sale.

In view of the foregoing, for the purposes of comparability of the results of the Parent Company with the previous period, the figures related to the two business units being sold/sold in the following reclassified schedules have been reallocated to the related items of the separate financial statements.

Furthermore, with a view to maximizing potential model/process synergies and efficiencies in order to improve the level of service provided to the affiliated mutual banks as part of the evolutionary plan for the "Corporate" sector, which envisages the reorganization of the companies of the direct scope operating in that segment, the transfer of the non-lease lending operations of Iccrea BancaImpresa (ordinary lending, special and international credit and extraordinary corporate finance) to Iccrea Banca was completed, with Iccrea BancaImpresa retaining the lease-related business only.

BALANCE SHEET

Assets

€/thousands	30/06/2021	31/12/2020
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	30,681,203	33,192,774
Financial assets measured at amortized cost –*Due from customers – Loans*	6,252,449	4,501,678
Financial assets measured at amortized cost – *Due from customers – Securities*	10,732,027	9,791,187
Financial assets measured at fair value through profit or loss	1,341,170	1,335,470
Financial assets measured at fair value through other comprehensive income	452,225	311,207
Equity investments	1,335,511	1,206,207
Other assets	513,234	300,457
Total interest-bearing assets	**51,307,818**	**50,638,980**
Other non-interest-bearing assets	313,219	320,177
Total assets	**51,621,036**	**50,959,158**

At June 30, 2021 total assets amounted to €51.6 billion, a slight increase compared with the €51.0 billion posted at the end of December 2020, mainly reflecting the following developments:

- loans measured at amortized cost were almost unchanged compared with the end of 2020, reflecting the offsetting effect of an increase in amounts due from customers and a decrease in amounts due from banks. More specifically:
  - the increase in amounts due from customers is largely attributable to the acquisition of the assets – notably medium/long-term loans following the reorganization of the "Corporate" segment - of Iccrea BancaImpresa (+€2.7 billion) and an increase in investments in debt securities (+0.9 billion, largely Italian government securities), partly offset by a reduction in repo transactions (-€1.2 billion);
  - the decrease in amounts due from banks reflects a decrease in loans (-€5.2 billion, partly in relation to a decline in the funding needs of Iccrea BancaImpresa), only partially offset by the growth in the reserve requirement maintained on behalf of the mutual banks (+€2.6 billion);
- an increase in financial assets measured at FVTPL (+€5.7 million, to €1.3 billion), attributable to the net effect of the following developments:
  - the increase in other financial assets mandatorily measured at fair value (+€133 million), mainly due to the acquisition of the funds previously held by Iccrea BancaImpresa following the reorganization of the "Corporate" segment (in particular units of CIUs in the amount of €94.1 million) and, to a lesser extent, an increase in purchases of debt securities (+€21.6 million) and equity securities (+€9.4 million);
  - the decrease in assets held for trading, mainly attributable to a decline in the value of trading derivatives (-€129.4 million);
  - the reduction of assets originally designated as at fair value (-€28.3 million), represented by the assets included in the Guarantee Scheme managed by the Parent Company;

- a €141 million increase in financial assets measured at fair value through comprehensive income, which held under the HTCS business model, reflecting the joint effect of the purchase of debt securities (especially those of public issuers in the euro area) in the amount of €50.9 million and equity securities of banks in the amount of €85.8 million (almost entirely Bank of Italy shares);
- an increase in equity investments (+€129 million), which reflected the acquisition of the shares previously held by Iccrea BancaImpresa (following the reorganization of the "Corporate" segment noted earlier), with an increase in the equity investments held in BCC Sistemi Informatici (+€0.5 million), Banca Mediocredito FVG (+€15 million) and BCC Factoring (+€19.1 million). There was also an increase in the investments held in Banca Sviluppo (+€28.4 million), BCC Risparmio e Previdenza (+€26 million) and Sinergia (+€0.2 million). An additional factor was the subscription of shares issued pursuant to Article 150 ter of the Consolidated Banking Act as manager of the Guarantee Scheme) by Banca Centropadana (+€13.2 million) and Banca Valdichiana (+€35 million). These changes were partially offset by the sale of the stake in Satispay (-€8.1 million).

€/thousands	30/06/2021	31/12/2020
Mutual banks	19,001,558	20,824,539
Other credit institutions	11,679,645	12,368,235
Due from banks	**30,681,203**	**33,192,774**

Amounts due from banks largely include lending to the affiliated banks (€19 billion, down €1.8 billion compared with 2020). These loans, disbursed against pool collateral, include about €19 billion in operations with the ECB (TLTRO III and T-LTRO II for the remainder), with the residual component being other forms of collateralized financing. Amounts due from other credit institutions (including debt securities) include €4 billion in intercompany lending (about €3.3 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

€/thousands	30/06/2021	31/12/2020
Current accounts	193,589	276,755
Medium/long-term loans	2,635,387	59,566
Repurchase transactions	609,080	1,772,307
Other transactions	2,694,639	2,387,353
Impaired assets	119,754	5,696
Due from customers	**6,252,449**	**4,501,678**

Loans to ordinary customers amounted to €6.3 billion, an increase on the €4.5 billion posted at the end of December 2020, of which €1.9 billion in intercompany financing. The increase in the sub-item "medium/long-term loans" (+€2.6 billion) is attributable to the transfer of the "Corporate" lending operations of Iccrea BancaImpresa, partially offset by a reduction in repurchase agreements with the Clearing & Guarantee Fund (-€1.2 billion).

Liabilities and equity

€/thousands	30/06/2021	31/12/2020
Financial liabilities measured at amortized cost – *Due to banks*	37,903,466	33,889,855
Financial liabilities measured at amortized cost – *Due to customers*	7,154,618	9,740,677
Financial liabilities measured at amortized cost – *Securities issued*	3,289,756	4,186,006
Financial liabilities held for trading	453,556	563,511
Financial liabilities designated as at fair value	336,289	340,957
Other liabilities	592,351	391,585
Total interest-bearing liabilities	**49,730,036**	**49,112,591**
Other non-interest-bearing liabilities	170,091	215,700
Shareholders' equity	1,639,742	1,697,663
Profit for the period	81,166	(66,795)
Total liabilities and equity	**51,621,036**	**50,959,158**

The slight increase in liabilities and equity in the first half of 2021 is attributable entirely to the increase of €0.6 billion in interest-bearing funding, which is the net effect of the following factors:

- an increase of €4 billion in amounts due to banks to €37.9 billion, due to an increase in time deposits (+€1.7 billion, entirely intercompany), ECB funding (+€1.9 billion) and current accounts and demand deposits (+€0.5 billion);
- a reduction of €3.5 billion in amounts due to customers and securities issued, which declined to €10.4 billion, due to: (i) a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€1.5 billion); (ii) a reduction in OPTES operations with the MEF (-€1 billion); and (iii) a decrease in securities issued due almost entirely to the redemption of maturing securities (-€0.9 billion);
- a decrease in liabilities held for trading, attributable mainly to the decline in the value of trading derivatives (-€134 million, connected with the analogous development in the corresponding asset item);
- a slight decrease in financial liabilities designated as at fair value in respect of financing received from the affiliated banks (the Ex Ante Quota) in connection with the Guarantee Scheme as a result of the distribution of income accrued in 2020.

€/thousands	30/06/2021	31/12/2020
Mutual banks	16,074,971	13,853,920
Other credit institutions	21,828,495	20,035,935
Due to banks	**37,903,466**	**33,889,855**

Amounts due to banks, which include €6 billion in deposits of the affiliated banks to meet reserve requirements, include: (i) €16.1 billion in positions with the affiliated banks mainly in respect of time deposits (€12.2 billion) and amounts held on the daily settlement account (€3.4 billion); (ii) €21.8 billion in amounts due to other credit institutions, largely related to financing from the ECB under TLTRO III in the amount of €20.9 billion (with the remaining €78 million related to TLTRO II); and (iii) intercompany positions with companies within the direct scope for the remainder.

€/thousands	30/06/2021	31/12/2020
Current accounts and deposits	761,996	941,373
Financing	5,751,507	8,212,042
Other payables	641,116	587,262
Due to customers	**7,154,618**	**9,740,677**

Funding with customers amounted to €7.2 billion, down €2.6 billion compared with December 31, 2020. The decrease is attributable to a decline in repurchase transactions (-€1.5 million) and OPTES transactions with the MEF (-€1 billion).

Equity

At June 30, 2021, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion, unchanged from 2020. Shareholders' equity, excluding profit for the year, amounted to €1.6 billion, a decrease of €58 million compared with December 31, 2020. The change is mainly due to the loss carried forward from 2020 (-€66.8 million) and the increase in valuation reserves (+€9.8 million), mainly due to changes in the cash flow hedge reserve as a result of hedges expiring during the period.

Income statement

€/thousands	30/06/2021	30/06/2020
Net interest income	**88,245**	**35,006**
Other gains/losses on financial transactions	61,639	43,086
Dividends	27,865	37,041
Net fee and commission income	**88,749**	**68,749**
Other operating expenses/income	95,063	78,845
Gross income	**361,561**	**262,727**
Personnel expenses	(101,546)	(91,961)
Other administrative expenses	(161,452)	(130,687)
Net adjustments of property, plant and equipment and intangible assets	(1,755)	(10,077)
Total operating expenses	**(264,753)**	**(232,724)**
Gross operating profit	**96,807**	**30,003**
Net provisions for risks and charges	8,284	(787)
Net losses/recoveries on impairment of loans and other financial transactions	(18,177)	(11,218)
Total provisions and adjustments	**(9,893)**	**(12,005)**
Profit/(loss) from equity investments	12,011	(25,540)
Profit/(loss) before tax	**98,926**	**(7,542)**
Income tax expense	(17,760)	1,335
Profit/(loss) for the period	**81,166**	**(6,207)**

Profit for the period amounted to €81.2 million, an improvement of €87.4 million compared with the loss posted at the end of June 2020 (-€6.2 million). The main developments leading to this performance for the period include:

- an increase of €98.8 million in gross income, which rose to €361.6 million, reflecting:
  - an increase in net interest income attributable to: i) the interest on loans transferred with "Corporate" lending operations of Iccrea BancaImpresa (+€35.8 million), partially offset by the reorganization of funding granted to companies within the direct scope, primarily Iccrea BancaImpresa as a result of the transfer (-€18.6 million); ii) an increase in interest connected with TLTRO III transactions (+€22 million); and iii) the increase in the overall contribution of the income on and volume of assets in the securities portfolio (+€14.5 million, with almost all of this accounted for by Italian government securities);
  - an increase net fee and commission income (+€20 million) deriving mainly from: (i) services connected with customers acquired from Iccrea BancaImpresa (+€15.2 million); (ii) growth in e-money fees (+€5.5 million), which gained ground thanks to an increase in transaction volumes compared with the year-earlier period, which had been severely impacted by the lockdown; and (iii) an increase in fees and commissions from collection and payment services (+€1.4 million); all partially offset by iv) a decrease in fees and commissions for IT services provided to Group companies following the transfer of IT operations to BCC Sistemi Informatici;
  - an increase in "other gains/losses on financial transactions" to €61.6 million (+€18.6 million compared with the year-earlier period), buoyed by increased gains on the sale of the securities (exclusively government securities) hold in the HTC e HTCS portfolios;
  - a decrease in dividend income (-€13.3 million, to €27.9 million) paid by direct subsidiaries as a result of the deterioration in performance or losses recorded by a number of companies in 2020, only partially offset by dividends deriving the investment acquired in the Bank of Italy during the period (+€3.8 million);
  - an increase in net other operating income (+€16.2 million), mainly attributable to an increase in revenues from the services rendered to the affiliated mutual banks for class 1 services increased (from €30 million to €33 million), Class 2 services (+ €5.9 million from €20.6 million to €26.5 million) and planning services (+ €2.5 million from €12.5 million to €15.0 million);
- a reduction in losses recognized on controlling interests (-€37.6 million). Compared with the impairment losses recorded in the year-earlier period on the investments held in Iccrea BancaImpresa and Banca Sviluppo (-€25.5 million), a gain was recognized on the sale of the investment held in Satispay (+€12 million).
- the increase of €32 million of operating expenses, which totaled €264.8 million in the period, was mainly attributable to: (i) an increase in personnel expenses (+€9.6 million, from €92.0 million to €101.6 million) was largely attributable to the joint effect of the acquisition

of personnel from Iccrea BancaImpresa (following the reorganization of the "Corporate" lending operations) and the further expansion of the workforce, only partially offset by the transfer on July 1, 2020 of personnel in the IT operations ceded to BCC Sistemi Informatici; and (ii) an increase in other administrative expenses (+€30.8 million, from €130.7 million to €161.5 million), reflecting the billing of IT services by BCC Sistemi Informatici (€23.5 million, to be considered together with the reduction in costs deriving from the transfer of personnel and recoveries from the affiliates for projects with an IT impact) and the costs relating to the services provided to the mutual banks transferred by Iccrea BancaImpresa regarding MCC servicing (€6 million, although these were recouped), only partially offset by a decrease in the Resolution Fund (BRRD) contribution (-€2 million);

- an increase in impairment losses on loans (+€7 million), reflecting provisions on the loan portfolio acquired from Iccrea BancaImpresa, with an increase in net provisions mostly on stage 3 positions.

ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS UNIT

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

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

The decision to establish a dedicated legal entity to manage the e-money business is, in fact, oriented towards the achievement of: a) a possible expansion of the reference market; b) greater organizational and operational flexibility functional to the characteristics of the market; c) an improvement in time-to-market due to the convergence and centralization of all functional and technological components; and d) greater consistency in the management of capital absorption with respect to the specific business.

The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current electronic money business, including the employees, assets, and other legal relationships pertaining to it. The performance and financial position of the e-money division is shown below.

Balance sheet

€/thousands	30/06/2021	31/12/2020
Financial assets measured at amortized cost	601	580
Intangible assets	2,794	3,380
Other assets	207,576	185,472
Total assets	**210,971**	**189,432**

€/thousands	30/06/2021	31/12/2020
Financial liabilities measured at amortized cost – Due to customers	113,369	108,728
Other liabilities	83,683	59,426
Post-employment benefits	426	465
Provisions for risks and charges	2,453	2,194
Profit/(loss) for the period (+/-)	11,040	18,619
Total liabilities and equity	**210,971**	**189,432**

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

Income statement

€/thousands	30/06/2021	30/06/2020
Fee and commission income	178,770	150,656
Fee and commission expense	(134,369)	(112,838)
Net fee and commission income	**44,401**	**37,818**
Gross income	**44,401**	**37,818**
Net income/(loss) from financial operations	**44,401**	**37,818**
Administrative expenses:	(35,318)	(31,031)
a) personnel expenses	*(3,064)*	*(2,820)*
b) other administrative expenses	*(32,254)*	*(28,210)*
Net provisions for risks and charges	(257)	(289)
b) other net provisions	*(257)*	*(289)*
Net losses/recoveries on impairment of loans and other transactions	-	(3)
Net writedowns/writebacks of property, plant and equipment	-	(1)
Net writedowns/writebacks of intangible assets	(464)	(341)
Other operating expenses/income	7,223	8,146
Operating expenses	**(28,816)**	**(23,519)**
Profit/(loss) before tax on continuing operations	**15,585**	**14,299**
Income tax expense	(4,545)	(4,052)
Net profit/(loss) for the period	**11,040**	**10,248**

7. SIGNIFICANT EVENTS DURING THE PERIOD

2021–2023 plan

In March 2021, upon completion of the new planning cycle that began in the fourth quarter of 2020, the ICBG's 2021–2023 plan, centered around the three strategic guidelines and the various actions defined in the Group's Strategic Plan and Transformation Plan, was approved. This new three-year plan also takes account of the new marketplace and macroeconomic landscape as well as the measures of economic support implemented by the Italian government, by the central bank, and by European institutions. The plan also factors in the effects of the regulatory framework, which, for 2021, remains particularly dynamic, including innovations and the consequent need to adapt (esp. the effects of CRR2, the MREL target, the new definition of default, and calendar provisioning).

In terms of the strategic guidelines and related actions, the new plan factors in the various aspects of the aforementioned Strategic and Transformation Plans, and more specifically:

- revenue-related actions aimed at achieving the ICBG's full potential by disseminating best practices and by strategically repositioning the product companies within the direct scope with a view to maximizing the efficacy of the Group;
- actions to improve the Group's efficiency, including the optimization of costs within the direct scope (such as efforts of "cost excellence" to rationalize external costs) and the centralization and standardization of operating models, particularly with regard to Sinergia (which will be receiving the assets, services and resources needed in order to be the point of reference in terms of supporting the efforts of the affiliated banks);
- changes to the structure of the Group and its branch network, including the optimization of the territory development network of the mutual banks and of the digital channels, as well as the revision of processes between the corporate offices, territorial units, and the banks;
- actions to strengthen Group capital, both by de-risking efforts and the proactive management of NPLs and by way of data-quality initiatives, the optimization of risk-weighted assets (RWAs), and the issue of new MREL-compliant instruments;
- actions of environmental, social and governance (ESG) sustainability by establishing a detailed plan of actions that will have positive impact on and create value for the local communities by protecting the environment, combating climate change, and the valorization of human capital.

The new three-year plan sets the following targets:

- sustained growth in lending to €90 billion (up from €87.3 billion at the end of 2020);
- a significant boost in the development of indirect funding, focusing on qualified funding (i.e. asset management and insurance) to reach a stock of €36 billion by 2023 (up from €27 billion in 2020);
- a cost-to-income ratio of less than 70% and a ROE of about 3%;
- capital ratios in line with market leaders, i.e. a CET1 ratio of about 15% and a TC ratio of about 16.4%.

As discussed in March, these targets do not take account of the effects of the comprehensive assessment. More specifically, because of the continuation of activities beyond the first half of 2021, due in part to complications brought about by the pandemic, the financial figures for the year have not been included in this three-year plan, but will be factored in as part of the Group's upcoming 2022-2024 planning cycle.

NPL strategy

The 2021-2023 NPL strategy was approved on March 26, 2021. This strategy sets the targets for non-performing exposures (NPLs) at both the consolidated level for the entire Group and individually for the companies within the direct scope.

Despite the complex macroeconomic landscape brought about by the spread of the COVID-19 pandemic, the goal of the 2021-2023 NPL plan is to approach the most challenging positioning targets expected by the European supervisory authorities over the three-year period. In particular, the 2021-2023 NPL plan factors in operational actions that will enable the Group to approach a gross NPL ratio of 6.5% by the end of 2023 (with GBV at around €6 billion) and a net NPL ratio of 3.3% thanks to a coverage ratio of 51%. These targets, which call for a reduction in gross NPLs of €2.4 billion over the three years, take account not only of the expected improvement in the risk indicators issued by the supervisory authorities and expected by the market, but also the impact of the new rules introduced concerning the new definition of default, the levels of calendar provisioning called for by the authorities, and the potential default of a portion of the portfolio given, in part, the current macroeconomic environment (with new defaults over the three years estimated at a total of €5.8 billion).

In order to achieve these targets, a combination of actions has been planned that aim to minimize the financial impact of the de-risking strategy, which – in addition to potential sales of NPLs, hypotheses that factor in any public measures that should be issued or renewed – include well-defined, proactive actions involving the impaired credit positions (in particular, attention aimed at returning customers of good standing back to performing status, collections, the liquidation of collateral, write-offs, and settlements).

Upon completion of these actions, coverage levels should decrease in 2021 due, essentially, to the closure, by way of the mechanisms described above, of important segments of the portfolio that call for high levels of coverage, before rising again by the end of the plan (51% total NPL coverage, including around 77% for bad loans and 41% for unlikely-to-pay exposures). The overall decline in NPL coverage levels by the end of the plan, from the 55.7% of 2020 to 51%, is also to be seen in relation to the change in the organization and composition of the portfolio, which, upon completion of these actions, will include a decrease in the riskiest impaired positions (with the percentage of bad debts expected to fall from the 48% of 2020 to 34% by the end of the plan), a reduction in the average estimated age of NPLs (from 5.1 years in 2020 to 3.2 years by plan end), and the valuation of the guarantees that provide important support to the Group's impaired credit.

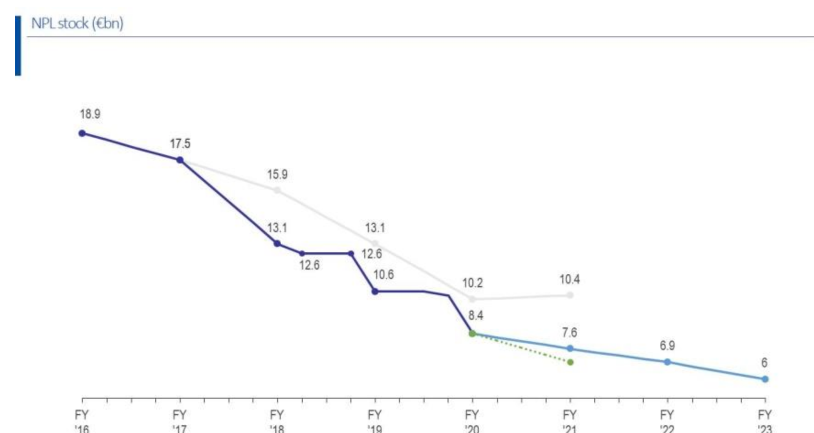
Within this context, it is important to note that the 2021-2023 NPL plan does not yet factor in the effects of the ECB's recently completed comprehensive assessment of the Group. Therefore, the qualified targets of the 2021-2023 NPL plan could be revised based on the impact of this assessment as soon as the results are official.

Following approval of the 2021-2023 NPL plan by the Board of Directors of the Parent Company, top-down processes were activated in order to disseminate the plan with the affiliated banks, enabling them to discuss, qualify and work towards the operating targets to be reached over the course of the plan.

Continuing with the de-risking efforts aimed at significantly reducing the Group's NPLs, in the first half of 2021, the ICBG began organizing another multi-originator securitization concerning multiple loan portfolios resulting from mortgage loans and unsecured lending to non-performing borrowers (GACS V) for a total estimated amount of €1 billion, the senior class of which is eligible for public guarantees of the liabilities issued. In line with market best practice for operations of this type and with previous operations carried out by the ICBG, this operation, too, calls for the non-recourse sale of loans to a special-purpose securitization vehicle established in accordance with Law 130/1999, which will finance the payment of the sale by issuing asset-backed securities. The Parent Company will be involved in the operation as both the selling party and the co-arranger (together with JP Morgan Securities Limited). As a result of the operation, loans originated by banks of the ICBG and of banks from outside the Group will be sold for a total gross exposure that falls within the scope of the overall de-risking strategy being pursued by the Group.

The without-recourse sale of unlikely-to-pay exposures, for a total value that is expected to reach around €0.5 billion, is also currently underway, in part within the scope of "paper-for-paper" transfers to AIFs.

The chart below shows the trend of the last 5 years in the volume of impaired credit and the forecasts for 2021-2023 based on the strategies defined, as well as the line related to the 2018-2021 plan submitted to the authorities in conjunction with the filing for the creation of the Iccrea Cooperative Banking Group. As the chart shows, the Group has, in terms of de-risking, thus far reached higher targets compared to the forecasts submitted to the authorities as a result of the overall organization put in place to achieve the targets set.



2021 marketing plan and implementation of commercial and marketing strategy

In January 2021, the 2021 marketing plan was defined. In line with efforts that began in 2020, and given market trends and the post-COVID recovery, this plan included the definition and launch of campaigns, contests, and other initiatives in a range of areas, including: Bancassurance, SME lending, lending to individuals, electronic money, young account holders, Soci&*Over*, digital and payment services, private banking, and wealth management.

These initiatives may be grouped into three main types, which include mutual-bank involvement based on their specific needs:

- B2C –> targeting the consumer and involving CRM techniques. These initiatives have enabled the affiliated banks to reach more than 920,000 (individual and business) customers with levels of openness to direct email marketing (DEM) in the 25-57% range, which is higher than the market average. Various campaigns targeting consumer and households, including: Multirischio Casa & Famiglia, Vita Unica Accumulo, various Flash Crediper promos, Debito co-badge, and International Consulting.

- B2B –> aimed at the mutual banks as support in product placement/promotion, including the health-care and third-sector product (Salute e Terzo Settore) for the non-life insurance segment; factoring products tied to the Ecobonus in the area of private banking and wealth management; the PAC campaign; and the Bolli campaign, which, with more than 500 accounts opened, reached total funding of €20.7 million. For the Corporate segment, the leasing campaign was executed, among others.
- Special projects –> campaigns/projects targeting the consumer through the purchase of advertising space.

In terms of development of the commercial and marketing strategy, in the first half of 2020, the Group continued efforts to enhance our model of banking in support of the local communities of the affiliated banks, while maintaining a keen focus on the needs of territory and on the satisfaction our customers and shareholders. Within this context, we have consolidated the process of transitioning the current service model and branch network towards a model based on high-quality relationships. To this end, and in line with actions pursued in 2020, the following primary areas of development have been targeted:

- an offering based on high-value advisory services dedicated to individual and business customers;
- the development of the branch model by enhancing the automation of transaction services and through investment in remote-banking technologies;
- the dissemination of a customer-centric approach by listening to the needs of both customers and shareholders in order to manage current and future needs;
- community development with product/segment specializations and dedicated offerings, reinforcing the strategic positioning of the ICBG as a key partner for SMEs;
- enhancing customer service capabilities through advanced customer-insight tools and models;
- the launch of a digital, multichannel strategy.

In support of this development, work has continued within the scope of the Group's Transformation Plan focused on the "Full Revenue Potential" program and other projects, including:

- Customer Relationship Management (CRM): launched in early 2019 with the goal of implementing a tool that could coordinate the marketing and CRM efforts of the mutual banks by taking advantage of all available channels (e.g. the branch network, RelaxBanking, email, text messaging, push notifications, landing pages, and ATMs), application development was completed in the first part of 2021, and roll-out to the affiliated banks began in March 2021;
- Full Commercial Potential and development of the mutual-bank service model: focused on the development and specialization of the mutual-bank branch network, including the enhancement and development of the catalogue of products and services;
- Intour and other special projects: aimed at development an advanced service platform for the tourism industry, integrated with an innovative offering of financing, payment systems, and insurance by way of qualified partnerships;
- Wealth Management Platform (WMP): aimed at developing our advisory models in order to ensure the quality of the offering and management of investment, funding, life insurance, and other wealth management products. Released in April 2021, the WMP will be rolled out gradually in order to ensure an effective activation of the new front-end application for the mutual banks. In the second half of 2021, this roll-out will continue with the goal of activating all banks by the first half of 2022;
- Implementation of the offering of products and services for private banking and affluent accounts;
- Development of the private banking service model: training program aimed at developing the role of private-banking account manager, within the scope of a broader plan to create a career and talents system;
- Galileo Plus: a dynamic service of analytics and reporting for planning, market and account analysis, and location analytics.

In 2021, the Group also continued efforts in the area of digital transformation, including development of a new concept of community service, which is being achieved by expanding the branch model, disseminating innovative services for the mutual banks, and revising value-proposition models and other overall customer experience.

To support this process, various initiatives of technological innovation and functional development have been started/implemented. Of particular note in this regard is the Digital Maturity Framework, which, after defining the current level of business maturity (e.g. touch points, creative assets, audience strategy, ad channel, and marketing automation), has served to define the lines of development in order to further optimize the coverage and output of digital marketing efforts.

Reorganization of the Group's corporate segment – Iccrea BancaImpresa

As mentioned previously, in order to enable the affiliated banks to achieve their full commercial potential, and within the scope of efforts to determine new strategies for the positioning of the product companies within the direct scope, the sale to Iccrea Banca of the lending operations of Iccrea BancaImpresa was completed (specifically, ordinary lending, special and international credit, and extraordinary corporate finance, in

addition to a number of equity investments) – effective as of January 1, 2021. As a result, only the lease business now remains with Iccrea BancaImpresa.

Therefore, in the first half of 2021, implementation of the new model has begun and has largely been completed, including completion of the operational and organizational actions resulting from the transaction.

Reorganization of the Group's retail segment – Bancassurance

Through the first half of 2021, in line with the reorganization of the Group's bancassurance segment which began in 2020, work continued on implementing the Group's new model aimed at revising and streamlining the business management model, featuring a diverse range of processes and focused on centralizing the capabilities and commercial efforts of the business divisions of the Parent Company and of a number of regional agencies within BCC Servizi Assicurativi (established in August 2020).

Within this context, and with a view to optimizing commercial and operational processes and approaches, we began the process of evolving the segment in the first half of 2021, which has called for:

- within BCC Servizi Assicurativi, as of October 1, 2020, of the commercial network dedicated to development of the non-life bancassurance segment
- the start of activities concerning the acquisition of the regional agency Mocra in BCC Servizi Assicurativi, which was officially completed on July 16, 2021. This process has led to the creation of an initial hub for the insurance segment for the Iccrea Group in southern Italy.

Reorganization of the Group's retail segment – Electronic money

During the year, work has continued on the creation of a company in Iccrea Banca's electronic-money segment, effort which call for the convergence of all operational and technology components by spinning off the (issuing and acquiring) business in a newco established on December 20, 2018. The goal is to achieve full commercial potential by way of increased organizational and operational efficiency and improved time-to-market as a result of this convergence and of a potential expansion of the target market. Furthermore, on May 10, 2021, this newco changed its name from Ventis SpA to BCC Pay SpA. Also during the first half of the year, work continued aimed at starting up the operations of BCC Pay SpA and obtaining authorization from the competent authorities in order to operate as an electronic money institution.

Partnership with Pitagora in the business of salary- and pension-backed lending

In the latter part of 2020, Iccrea Banca and BCC CreditoConsumo signed a commercial agreement with Pitagora SpA, a member of the Cassa di Risparmio di Asti Group specialized in salary and pension-backed lending. Distribution of related products through the branches of the affiliated banks began in the first half of 2021. Within this context, on May 31, 2021, in order to consolidate this partnership and a related long-term project, Iccrea Banca signed an investment agreement with the current shareholders of Pitagora SpA aimed at acquiring an initial 9.9% stake in Pitagora SpA, an equity interest that could – at the discretion of Iccrea Banca – increase to up to 20%. This agreement is subject to authorization by the competent supervisory authorities. This long-term project seeks to enable the Group to strengthen its positioning within the consumer-credit market and to enhance its operations with a partner specialized in this segment, all within broader efforts of the affiliated banks to strengthen their offering in order to meet the needs of their shareholders and of their retail customers.

Sale of 100% of Ventis Srl

In the first half of 2021, following the strategy discussions within the Group concerning the positioning of Ventis Srl that began in December 2020 following Iccrea Banca's acquisition of all of the company's share capital, all shares held in Ventis Srl and its subsidiary 13metriquadri Srl were sold, effective as of May 19, 2021, to the Making Science Group, a Spanish group listed on the Madrid stock exchange and specialized in advisory services in the fields of technology and digital marketing. The consideration received totaled €9.5 million, and the related agreements call for continuation of the services provided to ICBG and to our customers with the definition of a specific commercial agreement.

Sale of the equity investment in Satispay SpA

On March 31, 2021, within the scope of the rationalization of the Group's equity investments and following longstanding efforts to support the company in achieving its current market positioning, 623,998 Satispay shares held by Iccrea Banca were sold to three investors: Tencent Holdings Limited, Lightstone Fund SA, and Telecom Italia Ventures Srl. The shares represent approximately a 14.9% stake in the company, for which a total of €20.1 million was paid, giving the Group a pre-tax capital gain of approximately €12 million.

Acquisition of 100% of BCC Risparmio & Previdenza

On January 14, 2021, within the scope of the Group's strategy to achieve our full commercial potential and of efforts to define positioning strategies for the product companies within the direct scope, Iccrea Banca completed the acquisition of 100% of the shares in BCC Risparmio & Previdenza SGRpA. Iccrea Banca acquired the 25% stake (equal to 2,125,000 shares) held by Assimoco Vita, a member of the Assimoco Group, against payment of €26 million, while also launching new initiatives of business development with the goal of enhancing the service model facilitated in part by this full ownership of the company.

Initiatives and measures undertaken in response to the COVID-19 health emergency

Group actions aimed at ensuring employee health and safety, preventing the risk of infection, and ensuring business continuity continued in the first half of 2021 in full compliance with the measures issued by government authorities. Of particular importance in this regard, for the purposes of monitoring and managing the overall operations of the Group, is the role played by the COVID-19 emergency task force put in place at the start of the pandemic. This cross-functional task force works constantly to assess developments and make the decisions needed to ensure there are adequate coordination mechanisms in place, to harmonize the interpretations of the various measures and guidelines issued by the Italian Government, European Community bodies and other national and European authorities, and to ensure the standardization of the solutions implemented.

With regard to safety and continuity in operations, and in line with 2020, we have continued overseeing and coordinating the necessary steps in order to ensure the safety of employees, customers and vendors – in addition to the necessary communications with other internal and external stakeholders – and to ensure the continuity of critical services. These actions have been coordinated within the Group's broader framework of business continuity, which includes specific components related to management of the pandemic.

As implemented during the previous year, remote working has also remained in place in relation to service operations and the provision of access to systems. Available infrastructures are constantly monitored in order to ensure the effective operation of systems supporting operating procedures currently in place, while ensuring compliance and the management of the various projects underway essentially in line with established plans.

The personnel in the units that conduct critical activities, manage system-wide processes, and operate in our markets have been taking a hybrid approach to their work, combining work in the office with remote work from home, so as to reduce the risk of infection and of consequently being unable to work.

For the network of operating branches of the various banks and other companies of the Group, a uniform, coordinated approach for their opening and, where necessary based on the specific circumstances, selective closure has been established. Access to branches continues to be governed by specific regulations that ensure the observance of safety standards. Communication with customers has been maintained by way of in-branch signage and other means of communication (e.g. the website). Access to branches is being ensured in full compliance with social distancing, while ensuring personnel has constant access to the PPE required by applicable legislation and adopting all measures issued over time by the competent authorities.

With regard to lending, we have maintained the operating measures shown on the 2020 financial statements, which have ensured the adequate management of lending operations throughout even the most severe periods of the health emergency.

In 2021, the Group has also continued supporting businesses and households as done in 2020.At June 30, 2021, the banks of the ICBG have approved applications submitted under legislative, ABI, and bank sponsored programs for a total of €22 billion (equal to 97.9% of the applications received).

The table below provides a breakdown of the stimulus measures granted.

ICBG moratoriums (€/billions)	Amount 30/06/2021	Amount 17/09/2021
Applications approved	21.5	21.5
% applications approved	98%	98%
Remainder	6.2	5.9
New financing under the Liquidity Decree (€/billions)	**Amount 30/06/2021**	**Amount 17/09/2021**
Financing issued	8.0	8.5
% financing issued	93%	94%

As shown above, a significant percentage of applicants for loan payment moratoriums and other stimulus measures made available by the government, by industry associations, and by the banks themselves at the start of the pandemic, and then extended as the economic crisis brought about by the health emergency continued, have returned to making normal payments. At June 30, 2021, the remaining balance of active moratoriums came to €6.2 billion (compared with a remainder of €16.4 billion at December 31, 2020), €5.4 billion of which related to public moratoriums for households and SMEs that benefited from the most recent support measure of the second Support Decree, which was extended until December 31, 2021.

The implications of the health emergency, particularly in terms of its impact on the lending industry, affect all aspects of the Group's credit risk

assessment and management framework and, in this sense, have called for action to supplement and/or adapt processes and methodologies aimed, generally speaking, in two main directions:

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

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

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

- information related to the process of monitoring lending operations with regard to COVID-19, with a particular emphasis on the support measures approved for customers and the main analyses of and trends in the Group's overall loan portfolio;
- the main trends in the credit risk profile.

After the supervisory authorities issued specific guidelines accompanied by requests for the banks to provide information of a quantitative and qualitative nature, the Group now prepares the following COVID-19 reports at the consolidated level:

- "COVID-19 Emergency Measures – Moratoriums and lending", a template issued to the Bank of Italy on a weekly basis;
- "SSM COVID-19 reporting", a template issued monthly to the ECB JST together with the ICBG's monthly closing package for the balance sheet, income statement, and risk-weighted assets (RWAs);
- "COVID-19 Impact – Credit monitoring", submitted to the ECB JST, which provides a risk-based presentation of the numbers and trends for the Group's loan portfolio, with a specific focus on operations related to the COVID-19 emergency and related support measures.

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

With regard to operational risk, the Loss Data Collection process has been further intensified, particularly as concerns the collection of operational loss data and/or the extraordinary costs incurred by the various legal entities in order to ensure business continuity, as has the monitoring of IT and cyber incidents, which has been oriented more towards identifying any causal links of events to the pandemic. Also essential is the adoption of a multi-risk approach in order to ensure and strengthen operations, which includes an ability to manage ICT risks and digital security, while paying particularly close attention to the growing number of cyber threats and new forms of financial crime that have, as the reader will be aware, characterized periods of severe economic upheaval.

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

The overall set of analyses and simulations have provided crucial input and consistency checks in support of the initial phase of 2021-2023 top-down planning, which was completed in the first quarter of 2021. Nonetheless, following completion of the asset quality review, the outcome of which was published by the ECB on July 9, and given the changing economic landscape and continuation of the government's support measures at year end, subsequent fine-tuning and consolidation of the individual plans was suspended and further analysis was made necessary, particularly with regard to the cost of risk and asset quality. Within this landscape, in July, work continued on an updated 2021-2023 consolidated plan, which is to be followed by an individual breakdown with a particular focus on the 2021 budget and a revisiting of the Group's values. This process is to be completed by late September or early October.

Revision of the territory coverage of the affiliated banks

In the first half of 2021, the Parent Company continued work to revise the operating structure throughout the territories of the affiliated mutual banks and, in particular, to rationalize structures put in place in recent years as a result of the merger of banks. This is being done in order to create banks with in-depth knowledge of their communities so as to maximize their role in society.

More specifically, the following mergers took place in the first half of 2021:

- BCC di Buonabitacolo was merged into BCC Cilento di Sassano e Vallo di Diano e della Lucania (now named Banca 2021 – Credito Cooperativo del Cilento, Vallo di Diano e Lucania), with legal effect as of February 11, 2021;
- Banca di Verona Credito Cooperativo Cadidavid was merged into Banca San Giorgio Quinto Valle Agno (now named Banca di Verona e Vicenza – CC), with legal effect as of April 12, 2021.

In the first half of 2021, the ECB approved two plans for business combinations that will take effect in the second half of 2021. More specifically:

- as notified on April 15, 2021, the ECB authorized the merger of Banca Valdichiana CC di Chiusi e Montepulciano into Banca Terre Etrusche e di Maremma, with legal effect as of July 26, 2021;
- as notified on May 18, 2021, the ECB authorized the merger of BCC Borghetto Lodigiano into Banca Centropadana Credito Cooperativo, with legal effect as of September 13, 2021.

Actions within the scope of the Guarantee Scheme

In the first half of 2021, the Parent Company launched two initiatives of capital support for a total nominal amount of €48.2 million by making use solely of the Ex Ante Quota of the readily available funds. More specifically:

- subscription by the Guarantee Scheme of shares issued in accordance with Article 150-ter of Legislative Decree 386/93 by Banca Valdichiana for a total of €35 million;
- subscription by the Guarantee Scheme of shares issued in accordance with Article 150-ter of Legislative Decree 386/93 by Banca Centropadana for a total of €13.2 million.

These capitalization measures have been allocated proportionately to each mutual bank in accordance with the rules defined by applicable internal rules. In accordance with the model of prudential accounting defined by the Group, the portion allocated to each affiliated bank was:

- recognized as indirect financing in an instrument included in own funds by the issuer;
- deducted, prudentially, from the component of own funds by each participating bank consistent with the type of initiative taken in the mutual bank assisted.

Covered bond program

In 2021, the Group structured a multi-issuer covered bond program in compliance with Law 130 of April 30, 1999, with the decree of the Ministry for the Economy and Finance of December 14, 2006, and with the supervisory measures of the Bank of Italy of May 17, 2007 (as amended).

As the Parent Company, Iccrea Banca acted as the promoter and issuer alongside the initial involvement of eight selling banks from the ICBG.

The creation of this program is part of a process to increase efficiency in the management of sources of funding and is aimed at enabling the Group to have a broader range of instruments with which to manage liquidity. This decision was made in light of the fact that the covered bond market gives access to funding instruments with longer maturities and makes it possible to reach a more diverse base of investors and to stabilize the cost of funding.

Structured in accordance with applicable legislation, the operation calls for the following activities:

- the Group banks transfer a portfolio of loans to the special-purpose vehicle (SPV) ICCREA Covered Bond S.r.l.;
- the assets sold to the SPV remain separate from those of the SPV itself, to the benefit of the holders of the covered bonds and of the other parties to whom the related guarantee is issued;
- the banks issue a subordinated bond aimed at financing payment of the price for the purchase of the assets by the SPV.

This structure makes it possible not to alter the regulatory risk profile of either the selling banks or the Iccrea Cooperative Banking Group and does not involve the derecognition of the assets used to cover the bonds.

The first sale was completed on June 28, 2021, and concerned residential mortgage loans with a total value of €674.4 million.

Given prevailing market conditions, the covered bonds to be issued in the second half of 2021 are to be covered within the scope of the program by an unconditional, irrevocable demand guarantee to be issued to the holders of the covered bonds. This guarantee is to be backed by a cover pool comprising "eligible" and "supplemental eligible" assets as defined by applicable covered bond legislation.

The financial structure of the program calls for Iccrea Banca to issue multiple, progressive series of covered bonds, which are to be assigned a rating by Moody's.

Early Warning System (EWS)

In the first half of 2021, work was done to fine-tune and further develop the overall early warning system (EWS), efforts which fall within the scope of its ordinary enhancement and development, having taken account of the expectations of the supervisory authorities and the company's goal of increasing integration among the Group's various risk management processes.

With regard to implementation of the EWS framework, the work done in the first half of 2021 was aimed at implementing the system, related periodic (ongoing) monitoring of the risk profile, and quarterly reporting. The outcome of these activities points to an overall situation of financial, capital and operational equilibrium within the affiliated banks. The affiliated banks showing a lack of equilibrium are the focus of the mechanisms established in the cohesion contract, which call for de-risking and other efforts to restore equilibrium. Upon completion of the classification process, the classified mutual banks are, in a controlled and coordinated manner, subject to specific directives and guidance establishing remediation plans and actions to be adopted, and the targets to be reached, in order to improve their respective risk profiles.

New definition of default, changes to policies and processes, refinement of the impairment model

The new regulatory measures concerning the new definition of default (DoD) have gone into effect as of January 1, 2021. Based on this new definition, the Group has adapted lending and risk management processes, along with the affected EWS processes. After these measures went into effect, the "past-due engine" to identify impaired past-due and over-limit exposures on the basis of the new criteria for counting days past due was rolled out. As regards the management of the credit processes impacted by the new provisions, a specific review was conducted of policies, processes, procedures, reporting and applications in order to achieve compliance with the new rules for default classification by the deadline set by regulators. Specifically, a process was defined to ensure both the uniformity of classification of customers of more than one Group bank and the correct application of the criteria underlying the propagation of the classification in relation to connected customers. Within this context, the correct calculation of the diminished financial obligation (DFO) relating to the determination of the change in the net present value (NPV) of cash flows before and after forbearance measures to a performing customer in proven financial difficulty was implemented.

The prevailing IFRS 9 framework has been updated in order to ensure regulatory compliance with these new measures to be applied for the first time in order to calculate the allowances for bad debt beginning with the accounting period ended March 31, 2021. Of note among the actions taken by the Group in the first half of 2021 to adapt to the new DoD is the updating and recalibration of the models used to measure credit risk (PD and LGD) aimed at taking account of the impact of the new rules for classifying exposures as past-due and the effect of the mandatory propagation of the default status group-wide for shared customers. In particular, the probabilities of default have been adapted to the new regulatory framework in order to take account of the impact on probability of a default event connected with the changes to the process of determining default itself, whereas the parameters for LGD have been recalibrated to take account of the new DoD in terms of both new defaults generated by adoption of this new definition and the consequent new makeup of the portfolio of impaired loans.

EVOLUTION OF THE REGULATORY AND OPERATIONAL ENVIRONMENT AND ASSOCIATED PROJECTS

For information on the organizational and procedural changes made, see the main legislative changes taking place during the first half of the year.

Environmental, Social and Governance (ESG) and climate change

On March 10, 2021, Regulation (EU) 2088/2019, known as the Sustainable Finance Disclosure Regulation (SFDR), went into effect for European Union Member States. The SFDR establishes a harmonized set of transparency regulations for financial market participants and financial advisers with regard to the integration of sustainability risks and related consideration in internal processes and in the information provided on financial products. It also introduces obligations for disclosures to be published on websites and in service agreements.

This regulation applies to companies of the Group that:

- provide portfolio management services (MiFID II) and qualify as “financial market participants”;
- provide advisory services concerning investments and insurance-based investment products (IBIPs) and qualify as “financial advisers”.

To comply with this new regulation, the Parent Company has issued guidance and other support aimed at ensuring that it is consistently applied.

On April 21, 2021, the European Commission adopted the sustainable finance package of measures that amend and add to the SFDR, MiFID II, IDD, UCITS directive, and AIFM directive.

More specifically:

- The EU Taxonomy Climate Delegated Act, adopted in accordance with Articles 10(3) and 11(3) of Regulation 2020/852, applicable as of January 1, 2022, which establishes the criteria used to determine whether an economic activity makes a substantial contribution to the objectives of mitigating or adapting to climate change or brings significant harm to one or more of the environmental goals defined under the Taxonomy Act;
- measures amending Delegated Regulation 2017/565 (implementing MiFID II) and Regulations 2017/2359 and 2017/2358 (implementing the IDD), applicable as of August 2, 2022, introducing the obligation for enterprises that provide advisory services concerning IBIPs and other financial products to integrate the sustainability preferences of their customers in procedures involved in assessing the appropriateness of investments;
- a measure amending Delegated Directive 2017/593 (part of MiFID II), applicable as of November 22, 2022, introducing sustainability factors in obligations of product governance;
- a number of measures amending the UCITS, AIFM and Solvency II directives, applicable as of August 2, 2022, clarifying the obligation for enterprises subject to the related provisions to integrate sustainability risks and other factors in meeting their fiduciary duties in relation to investors.

This sustainable finance package also includes a proposal for a new Corporate Sustainability Reporting Directive (CSRD), which will alter the current reporting obligations of the NFRD to include detailed reporting standards.

The Parent Company has begun work to adapt to these new measures within all companies of the Group affected by them.

On June 23, 2021, the European Banking Authority published its report on the management and supervision of ESG risks for credit institutions and investment firms. While consolidating the positions expressed in relation to the methods by which ESG risk and other factors are to be included in the legislative and regulatory framework of credit institutions and investment firms and focusing specifically on Pillar 2, this report develops a definition of ESG risk based on the EU taxonomy and provides recommendations for credit institutions and investment firms on how to integrate ESG risks into their business strategies and processes, in internal governance, and in their overall framework of risk management. It is also specified that the report is to be used as the basis for developing specific guidelines for managing ESG risks by actively taking into consideration the content of the report and related recommendations.

In June 2021, the EBA produced a report on these issues, as part of the more comprehensive Action Plan on Sustainable Finance, published by on December 6, 2019, which defines the road map for implementation of the mandates imparted in primary legislation (CRD II, CRD V, IFR and IFD).

The Group recognizes the strategic importance of ESG factors and the urgency of limiting climate change, thus committing itself to include these aspects in its strategic decision-making processes and to fully integrate them into its risk management framework with the aim of maintaining a low risk profile. This implies the ability to monitor how ESG and climate change risks affect current risks (credit, operational, reputational, market and liquidity risk) and include high ethical and environmental standards in internal processes, the products and services offered to customers and the selection of counterparties and suppliers.

EBA Guidelines on Loan Origination and Monitoring (LOM)

As of June 30, 2021, the EBA Guidelines on Loan Origination and Monitoring (LOM) are now in full effect. It should be noted that, for loans and facilities issued prior to June 30, 2021, and exposures that are subject to renegotiation or other contractual changes, the deadline for adopted the guidelines is June 30, 2022. June 30, 2024, is the end of the grace period regarding any missing information concerning loans issued prior to June 30, 2021, as well as the deadline for implementation of the requirements for monitoring the stock of existing loans.

Efforts to comply with this guidance are being carried out directly by the Parent Company.

Regulations governing issuers

CONSOB Resolution 21640 of December 15, 2020, went into effect on January 1, 2021. This resolution includes provisions concerning obligations to provide CONSOB with access to structured data regarding packaged retail and insurance-based investment products (PRIIPs). Applicability of the obligations of creators of PRIIPs for the distribution in Italy of products beginning on January 1, 2022, and of creators of PRIIPs that will be publishing the revised versions of KIDs on their websites beginning on that same date in accordance with Delegated Regulation (EU) 2017/653 has been set to January 1, 2020.

On February 4, 2021, the ESAs published a final draft of the planned changes to Commission Delegated Regulation (EU) 2017/653 concerning key information documents (KIDs) on packaged retail and insurance-based investment products (hereinafter the "PRIIPs Delegated Regulation").

Directive (EU) 2021/338 of the European Parliament and of the Council, amending Directive 2014/65/EU (MiFID II) with regard to the requirements of disclosure, product governance, and exposure limits, in order to facilitate recovery from the COVID-19 pandemic, was published in the European Union's Official Journal on February 26, 2021. Aimed at providing support to financial market participants so that Europe's economies could emerge from the crisis brought about by the pandemic, the changes introduced concern the requirements related to disclosure, product governance, and exposure limits.

On March 4, 2021, the ESMA published its guidance on disclosure obligations in accordance with the prospectus regulation, the purpose of which is to establish efficient and effective supervisory practice in a uniform manner across all authorities responsible for assessing the completeness, comprehensibility, and consistency of prospectus information.

Legislative Decree 17 of February 2, 2021, went into effect on March 11, 2021. With this legislation, the Italian government amended the Consolidated Finance Act transposing the provisions of Regulation (EU) 2017/1129 regarding the prospectus to be published for public offers or for authorizations for public listing. Within this context, the implementation of European regulation led to a review of primary legislation in order to eliminate any provisions that are to governed directly by the Regulation.

During the period under review, Regulation (EU) 2017/1129 was also amended and supplemented with the following:

- Regulation (EU) 2021/337 of the European Parliament and of the Council amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries and Directive 2004/109/EC;
- Commission Delegated Regulation 2021/528 concerning the minimum information content of the document to be published for a prospectus exemption in connection with a takeover.

Insurance distribution

With Legislative Decree 187 of December 30, 2020, which went into effect on February 9, 2021, the Italian government amended the private insurance code with regard to distribution related to the matters and provisions previously amended by Legislative Decree 68 of May 21, 2018, transposing the IDD.

On March 31, 2021, the following secondary legislation also went into effect:

- IVASS Regulation No. 40 of August 2, 2018, concerning provisions regarding insurance and reinsurance distribution, as amended by IVASS Measure No. 97 of August 4, 2020, aimed at completing legislation concerning the distribution of insurance-based investment products (IBIPs) for the channels within the IVASS's purview;
- IVASS Regulation No. 41 of August 2, 2018, containing provisions regarding the promotion, advertising and creation of insurance products, as amended by the aforementioned IVASS Measure No. 97 of August 4, 2020;
- IVASS Regulation No. 45 of August 4, 2020, containing provisions regarding the governance and control of insurance products;
- CONSOB Resolution No. 21466 of July 29, 2020, concerning the amendments to the regulation implementing the provisions of Legislative Decree 59 of February 24, 1998, regarding intermediaries, adopted by way of Resolution No. 20307 of February 15, 2018. These amendments mainly concern a revised version of the disclosure obligations and standards of conduct in the distribution of insurance-based investment products and are aimed at transposing the IDD into secondary legislation by enacting the regulatory resolutions issued by CONSOB.

Given the legislative framework described above, and following the actions taken to comply with the recommendations issued jointly by the Bank of Italy and IVASS in March 2020 concerning the distribution of insurance paired with financing, the Group's internal policies and regulations have been revised. We have also issued related operational memorandums and prepared the new, pre-contractual disclosures for the affiliated banks and for the companies within the direct scope.

Finance and markets

With regard to finance and the markets, and operational and support activities in particular, on February 18, 2021, the following regulations of the European Commission went into effect:

- Delegated Regulation (EU) 2021/236 concerning bilateral margin requirements (OTC), amending Delegated Regulation (EU) 2016/2251 regarding the timing of when certain risk management procedures will start to apply for the purpose of the exchange of collateral, such as: determination of the calculation date for the variation margin; calculation of the initial margin; implementation of the initial margin and the initial margin models; management and segregation of collateral; the handling of the initial margins received; and calculation and implementation of the variation margin;
- Delegated Regulation (EU) 2021/237 concerning the clearing obligation for OTC derivatives between parties within the same group, one of which within the European Union and one outside the EU, and OTC contracts novated due to Brexit. In order to ensure the proper function of the market and equal conditions between parties within the EU, European legislators have determined that counterparties may replace counterparties in the United Kingdom with counterparties in a Member State without triggering the clearing obligation. To this end, the counterparties must have enough time to replace their counterparties in the United Kingdom; therefore, the date from which the clearing obligation may go into effect for the novation of these contracts has been deferred.

The European Commission also issued Delegated Regulation (EU) 2021/962 extending the transitional period for application of the clearing obligation to pension scheme arrangements.

Within the scope of investment services and other activities, the European Commission issued Delegated Regulation (EU) 2021/527 amending Commission Delegated Regulation (EU) 2017/565 with regard to the minimum thresholds for weekly reporting obligation on aggregate positions held by various categories of individuals in commodity derivatives, emission allowances, and derivatives thereof.

On March 31, 2021, CONSOB Resolution No. 21755, amending Title IX, Part II, Book III of the Intermediaries Regulation regarding knowledge and skill requirements of intermediary personnel, went into effect and significantly revised existing legislation, substituting regulatory requirements and establishing, where necessary, references to the relevant points of ESMA guidelines.

Other amendments of note introduced by way of this CONSOB resolution concerned: (1) a general reduction in the length of experience needed in order to perform the relevant services, adjusted based on the individual's education, while eliminating the possibility to cut in half the minimum experience required by legislation in order to perform the services, which is now limited to those who began working prior to the entry into force of the new resolution (i.e. March 31, 2021); (ii) elimination of the provision concerning the minimum number of hours of career training per year and of the requirements for how that training is provided; (iii) coordination of the various parts of the Intermediaries Regulation concerning the knowledge and skill requirements, particularly as concerns the provisions applicable to certified financial advisers and autonomous financial adviser.

Work is underway to implement the changes introduced by this resolution into the related internal policies of the Group (i.e. training policies, finance regulations, ROP and NOP) regarding process governance.

Collective investment and pension funds

COVIP has issued the following resolutions:

- January 13, 2021, concerning supervisory instructions for companies that manage open open-end funds;
- May 19, 2021, establishing the regulation on COVIP procedures;
- May 19, 2021, on the by-laws of closed-end pension funds and on the rules of open-end funds and individual retirement plans.

With its measure of February 16, 2021, the Bank of Italy amended the collective investment management regulation (second update).

Benchmark indices – Benchmarks Regulation

Regulation (EU) 2021/168 of the European Parliament and of the Council concerning the substitution and use of the benchmark indices of other countries when into effect on February 13, 2021.

This regulation amends Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 (the Benchmarks Regulation, or BMR), which established the new legislative framework for the benchmark rates EURIBOR, LIBOR and EONIA, adapting the market indices and methods for their calculation to international standards, while aiming to ensure the integrity of the benchmark parameters

used within the euro area, with regard to the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation. It also amends Regulation (EU) No. 648/2021 with regard to Article 13-bis concerning amendments to pre-existing contracts for the purpose of implementing reforms to the benchmark indices.

Regulation (EU) 2021/168 (which includes the recommended amendments to the Benchmark Regulation of the European Commission published on July 24, 2020) also enables the European Commission to assign a statutory rate to replace a critical or systematically material parameter should it not be published in the future and applicable when the contract does not include a fallback clause of such clause is inadequate.

On May 11, 2021, the ECB published its recommendations concerning EURIBOR fallback trigger events. Specifically, the Working Group on Risk-Free Rates (WG RFR) issued a series of non-binding recommendations as part of the legislative package of EURIBOR fallback measures. The measure defines in detail:

- the methods for determining the €STR-based EURIBOR fallback rates to use in the event of permanent cessation of the primary benchmark rate (i.e. EURIBOR);
- the permanent trigger events to include in the fallback provisions of the contracts that use EURIBOR as the benchmark (i.e. EURIBOR fallback trigger events).

The planning activities for this issue are performed directly by the Parent Company and primarily focused on the measures necessary to adapt the front to back process for OTC derivatives operations, with particular reference to the adjustment of the valuation framework, the management of collateral, the modification of agreements with counterparties, the management of hedging operations and netting accounting.

Privacy

The following legislative changes during the period under review are of note with regard to personal data protection:

- on April 29, 2021, Italy's data protection authority issued a measure approving the code of conduct for the handling of personal data for the purposes of providing commercial information;
- on June 10, 2021, the authority issued its guidelines for cookies and other tracking mechanisms;
- on June 4, 2021, the European Commission adopted a new decision on the standard contractual clauses (SCC) related to the transfer of personal data outside the European Economic Area (EEA);
- on July 7, 2021, after an extended period of consultation, the European Data Protection Board (EDPB) adopted its Guidelines 07/2020 on the concepts of controller and processor.

Payment services and systems

During the period under review, Italy's Justice Ministry issued Decree No. 33 of January 1, 2021, amending Decree No. 458 of November 7, 2001, establishing provisions on the functioning of the digital archive of bank and postal checks and payment cards.

In this regard, on March 25, 2001, the Bank of Italy issued its measure concerning the central interbank register of bad checks and payment cards aimed at replacing Article 8 of the Regulation of the Governor of the Bank of Italy of January 29, 2002, on the functioning of the digital archive of bank and postal checks and payment cards given the need to adapt applicable legislation to the new regulatory framework governing the disclosure obligation of issuers of payment cards as per Article 10-ter, para. 1, letter c), of Law 386 of December 15, 1990, introduced by way of Legislative Decree 218 of December 15, 2017 (i.e. obligation to note in the archive the payment of a debt by the holder of a revoked payment card).

The Parent Company has taken action aimed at implementing electronic solutions for the transmission of the delayed notification of payment of all debts in the Carter Segment of the central interbank register of bad checks and payment cards, as well as at strengthening the set of organizational, procedural and operational mechanisms concerning this register in relation to the payment cards issued by the Parent Company and placed by the companies of the Group.

On February 17, 2021, the Bank of Italy's instructions concerning application of PSD2 went into effect.

On June 23, 2021, the Bank of Italy also published its communication to cash managers on the start of reporting by way of the CASH-IT portal.

Transparency

On April 1, 2021, the Bank of Italy issued its guidelines for intermediaries concerning the mechanisms of retail banking product oversight and governance (POG).

On June 30, 2021, the European Commission published a proposed directive concerning consumer credit aimed at promoting the convergence of national legislation adopted by Member States, in part by way of a clearer, more exhaustive transposition of concepts and guidelines, as

well as at ensuring the proper regulation of recently emerging aspects.

On March 19, 2021, the Decree of the Italian Ministry for the Economy and Finance establishing provisions for websites concerning the comparison of offerings related to payment accounts went into effect. In accordance with Article 126-*terdecies*, paragraph 3, of the Consolidated Banking Act, this decree governs comparison websites aimed at promoting transparency and facilitating the comparison of offers to consumers concerning payment accounts.

On June 30, 2021, the Bank of Italy issued a measure to update its supervisory provisions concerning the transparency of banking and financial services and operations and fairness in relations between intermediaries and their customers, transposing Article 106 of Directive 2015/2366/EU (the Payment Services Directive, or PSD2) concerning easy accessibility to the leaflet of the European Commission on consumers' rights when making payments in Europe, which describes such rights within the scope of European Union payment systems.

ICT

The following measures are of note with regard to cybersecurity:

- Presidential Decree No. 54 of February 5, 2021, establishing disclosure and appointment obligations for individuals within the scope of cybersecurity;
- Decree of the Prime Minister No. 81 of April 14, 2021, establishing measures for the reporting of incidents involving ICT assets and cybersecurity mechanisms.

In addition, the Italian digitalization agency, AGID (*Agenzia per l'Italia Digitale*), within the Office of the Prime Minister, issued the regulation on the provision of services of digital document storage and made the following documents available for consultation:

- AGID guidelines concerning the obligations of fiduciary service providers qualified for digital access to government services;
- European Community regulation that specifies the minimum content of business continuity plans in accordance with Article 12(16) of the ECSPR;
- European regulation establishing provisions for suppliers and for users in relation to systems of artificial intelligence (AI);
- Regulation amending the eIDAS Regulation aimed at introducing a framework for electronic identification and authentication.

Remuneration and incentive systems

On June 9, 2021, Commission Delegated Regulation (EU) 2021/923 was published in the European *Official Journal*. This regulation is a supplement to Directive 2013/36/EU of the European Parliament and of the Council on the technical regulations establishing the criteria for defining managerial responsibilities, control functions, relevant operational and other business units, and the material impact on the risk profiles of those units.

On July 2, 2021, the EBA published its final report on the revision of its guidelines on sound remuneration policies. This update takes account of the changes introduced by Directive 2019/878/EU (CRD V) and, in particular, the gender neutrality of remuneration policies. These revised guidelines are to be applied as of December 31, 2021, and replace the guidelines EBA/GL/2015/22.

8. GROUP HUMAN RESOURCES

At June 30, 2021, the workforce of the Iccrea Cooperative Banking Group totaled 22,079 employees (21,612.4 FTE[17]), distributed as follows:

Category	Number of employees June 2021	FTE June 2021
Mutual bank employees	18,672	18,236.2
Iccrea Banca and direct-scope companies	3,367	3,336.2
Other companies	40	40.0
Total	**22,079**	**21,612.4**

In the first half of 2021, the Iccrea Cooperative Banking Group's workforce saw a net decrease of 62 employees (with 727 new hires and 789 terminations). There were also 320 transfers between companies of the Group. The composition of the workforce by category and gender at June 30, 2021, is reported in the following table:

Position	Men	Women	Total
Senior management	378	26	404
Middle management	4,746	1,635	6,381
Office staff	7,664	7,630	15,294
Total	**12,788**	**9,291**	**22,079**
of which:			
On open-ended contracts	12,564	9,087	21,651
On fixed-term contracts	224	204	428

Work has continued on the implementation of the voluntary retirement incentive plan that began in 2020, including for those who met the requirements in the first half of 2021, given that the call for participation concerned all those who will become eligible by March 31, 2022. In the first half of 2021, the companies within the direct scope had 51 employees leave through participation in the plan.

With regard to Banca Sviluppo, the sale of branches continued in the first half of the year, involving five employees, who were transferred to BCC della Valle del Fitalia. Contracts were also transferred for seven employees at companies within the direct scope: 6 in Iccrea Banca; 1 in BCC Sistemi Informatici.

The workforce of the Parent Company saw a net increase of 232 employees in the first half of 2021: 313 additions, 279 of which transfers from other companies of the Group; and 81 outgoing employees, 6 of which to other companies of the Group.

Of the 279 transfers from other group companies, about 230 were related to the centralization of IBI's financing division within the Parent Company, which took place on January 1, 2021, and resulted in the transfer of operations related to ordinary lending, special credit, international services, extraordinary finance, and related guarantees to Iccrea Banca (with the leasing business continuing to be handled by Iccrea BancaImpresa). Another 15 additions were attributable to the centralization of the Cre.Co commercial network, while 11 employees have been allocated to central control functions with the goal of increasing the efficiency of controls within the Parent Company.

The 34 new hires from outside the Group were mainly related to the replacement of outgoing employees and additional implementations connected with organizational needs in relation to the new model defined following creation of the ICBG.

- Mergers involved the following mutual banks within the Group:
- Banca Del Cilento Di Sassano e Vallo Di Diano e Della Lucania and BCC Di Buonabitacolo into Banca 2021;
- Banca San Giorgio Quinto Valle Agno - Credito Cooperativo and Banca Di Verona - Credito Cooperativo Cadidavid into Banca Di Verona e Vicenza.

These mergers involved about 500 employees.

[17] Full-Time Equivalent (considers the effective % of part-time work).

REMUNERATION AND INCENTIVES POLICIES

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

In accordance with the provisions of Regulation (EU) 2019/2088 on transparency in relation to sustainability in the financial-services industry, the policies adopted in 2021 have taken account of issues of sustainability, which have resulted in a series of sustainability targets and performance indicators in line with the sound and prudent management of ESG risks as part of the system of short-term incentives of the Parent Company and of the companies within the direct scope. With these policies adopted in 2021, we have also begun a process aimed at pursuing equal opportunities and fairness in salaries and other issues over time.

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 May 28, 2021, and is available on the Bank's website.

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

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

With regard to the variable component of remuneration for previous years, the Group has taken into account the guidance of the supervisory authorities regarding the advisability of maintaining a prudent approach, compatibly with any applicable statutory constraints, in order to safeguard the ability to absorb losses and grant loans in support of the economy. To this end, as described in the report on the application of 2020 policies and in consideration of the pandemic and its consequences on national and local economies, senior management has voluntarily decided to waive 33% of their variable remuneration for 2020, which will be donated to health-care initiatives connected with the COVID-19 health emergency.

LABOR RELATIONS

With regard to labor relations, in the first half of 2021, discussions with trade unions continued with regard to both procedures relating to the Parent Company and the companies within the direct scope, and the reorganizations and mergers of the affiliated mutual banks.

Issues related to the COVID-19 emergency, too, have been the topic of systematic discussions both for the industry and for the Group. In compliance with the protocols agreed at government level with the social partners on the regulation of measures to contain the spread of the virus in the workplace and the subsequent agreements at the industry association level. The work of company-level committees has also continued for the application and verification of the rules developed at the government and industry level.

On the whole, actions such as employee shifts and the proper use of remote working have made it possible to significantly contain infections in the workplace, which has had benefits in terms of both employee safety and business continuity.

In the first half of 2021, the Labor Relations unit was engaged in managing the audit meetings called for by the trade unions regarding application of the agreement signed on December 22, 2020, related to activation of the extraordinary benefits of the Solidarity Fund for mutual banks. These meetings provided an opportunity to discuss the outcome of the procedure, which, within the established cost limitations, saw 93 employees volunteer for early retirement.

Also in the first half of 2021, work was done to define application of the provisions of point 5 of the agreement signed with the Parent Company, Iccrea BancaImpresa, and BCC Sistemi Informatici on July 2, 2020, concerning the sale of the ICT business units and the salary components connected with the particular duties performed.

In May 2021, an agreement was signed concerning the outsourcing of the control room of BCC Sistemi Informatici and related seconding of the employees involved. In July 2021, following negotiations that began in May, an agreement was signed with the trade unions regarding the merger of Mo.c.r.a. S.r.l. into BCC Servizi Assicurativi.

Towards the end of the first half of 2021, the Company began important talks with the trade unions aimed at signing a framework agreement within which procedures will be formalized for the management of the seconding and transfer of personnel, from the mutual banks to Sinergia, within the scope of the Operations Strategy project. As we await the conclusion of these talks, we have defined the Group's procedures related to the seconding of the employees of Banca della Marca, BCC Staranzano e Villesse, and Emilbanca to Sinergia.

Group banks also continue to carry out trade-union procedures of strategic importance to the Parent Company regarding the reorganization processes resulting from the revision of the branch network (BCC Toniolo San Cataldo, Busto Garolfo, Valle del Torto, Centromarca Banca, Gambatesa, Oglio e Serio, Campania Centro, Provincia Romana).

The labor agreements formalized within Banca Centropadana, after extensive talks with the trade unions, are of particular importance. In addition to the transfer of two of the four business units made up of groupings of branches to affiliated mutual banks, these agreements positively settled the issue of the 31 redundant employees by making use of the extraordinary benefits of the Solidarity Fund and the acquisition of employment relationships by the Parent Company and by the mutual banks throughout the territory.

In the first half of the year, Banca Sviluppo also completed the transfer of the final branches in Sicily to two mutual banks in the surrounding area.

In relation to Federcasse, the Group's Labor Relations unit played an active role in the preparation and subsequent negotiation of important matters of national relevance, such as the agreement on union rights, renewal of the contract for senior management, and integration of the protocol of May 7, 2020, on management of the COVID-19 emergency.

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

RISKS

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

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

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

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

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

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

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

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

In addition to the business model and the economic and market environment in which the ICBG operates, various factors were taken into account in the risk identification process, such as analysis of the external context (EU regulations, ECB/Bank of Italy/EBA measures), assessments of the main macroeconomic scenarios, analysis of the strategic and business model, and assessment of significant risks, with a focus on possible emerging risks.

The risks identified as significant and assessed are the following:

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

  - credit spread risk, namely the risk arising from changes in the market value of debt instruments due to fluctuations in the relative credit spread.

- credit valuation adjustment (CVA) risk: the risk of 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 any consequent reputational effects, i.e. types of risk that are difficult to measure/quantify for which the level of the suitability/compliance of the relative management processes is assessed;
- interest rate risk on the banking book: risk arising from changes in market interest rates that reduce the profitability and the economic value of non-trading book assets;
- concentration risk: risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or engaged in the same activity or dealing in the same goods, as well as from the application of credit risk mitigation techniques, including in particular risks associated with indirect credit exposures such as a single issuer of guarantees;
- strategic risk: the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment, adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes;
- sovereign risk: risk of loss due to a deterioration in the credit rating or the default of a sovereign state counterparty;
- real estate risk: risk of losses arising from a change in the prices of real estate held in the bank's portfolio (investments in real estate investment funds, other properties not used in operations;
- equity risk: risk of loss arising from a change in the value of equity instruments in the banking book;
- liquidity risk: risk that the bank could default on its payment obligations due to its inability to secure funding or only being able to secure it at above-market costs (funding liquidity risk) or to the possibility of incurring capital losses on the sale of assets (market liquidity risk);
- residual risk: risk for which the recognized credit risk mitigation techniques used by the Bank prove less effective than expected;
- securitization risks: risks associated with the performance of collections and recoveries on the portfolios underlying the various securitization in respect of which positions have been taken;
- climate change risks: the physical risk (chronic or acute) and the transition risk (financial loss that a company may incur, directly or indirectly, as a result of the adjustment towards a low-carbon and more environmentally sustainable economy). Physical and transition risks represent risk factors for the existing categories, with particular regard to credit, operational, market and liquidity risks.

The periodic updating of the RAF 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 2021, in line with the risk profiles included in the related framework. In particular, the updating of the Group framework strengthened the overall effectiveness of the RAF system for the purposes of application from a forward-looking perspective, through the identification of trajectories for sustainability thresholds for selected variables of the planning process over the plan horizon (2021-2023) similarly to the process adopted for objectives, thereby achieving full consistency between levels of maximum acceptable risk and the long-term objectives defined.

The ICBG risk strategy for 2021 underwent fine tuning in July 2020 and will be reviewed and updated at the same time as the review of the Group Operational Plan to incorporate the effects of completion of the Asset Quality Review, the results of which were made public by the ECB on July 9, 2021 in consideration of the changed macroeconomic environment and the extension to the end of the year of government support measures issued in response to the COVID-19 health emergency.

In terms of capital adequacy, work focused on:

- optimizing the capital structure of the Group and the individual affiliated banks, with a view to convergence towards the levels found at comparable peers, using subordinated Tier 2 instruments to:
  - ensuring sound levels of capitalization at the affiliated banks in order to enhance their capital soundness and increase the potential for development or consolidation in sectors, markets and territories deemed of strategic interest by the Group;
  - continue the gradual process of diversifying financial resources for compliance with solvency and MREL requirements;
- calibrating capital indicators at levels such as to ensure compliance with the levels expected by regulators (P2G and CCB) - even with the option of temporarily operating below these levels due to the COVID-19 emergency - preserving adequate prudential buffers to ensure stability in the changed external environment;

- continuing (taking account of the findings of the Comprehensive Assessment) the Group's initiatives to enhance the efficiency of capital resources to allocate to the development of plan actions (development of internal models in the credit sector, RWA optimization, improvement of CRM techniques, etc.);
- undertaking actions targeted at the financial sector to increase the efficiency of financial leverage to support net interest income, making use of the facilities available under the latest monetary policy actions, and to position the Group leverage ratio at a level more in line with those found at comparable peers.

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

- strengthen the liquidity management mechanisms resulting from the start-up of the Group to consolidate the structural liquidity profile through:
  - substantive maintenance of the liquidity deriving from direct customer funding to finance commercial lending with a concomitant increase in indirect funding;
  - new funding characterized by the progressive extension of maturities to manage the medium/long-term liquidity gap and lower costs, including the issue of ESG (Environmental, Social & Governance) securities within the EMTN program;
  - diversification of sources of liquidity, reconverting the medium/long-term funding of the Parent Company to different funding channels with institutional counterparties, partly in order to satisfy the progressive MREL target;
- foster the use of funding facilities available through the new monetary policy actions of the ECB (TLTRO III), consistent with the overall risk profiles of each Group company;
- complete the initiatives involving the treasury sector through the consolidation of the operating model in support of collateralized operations (collateralizations, intermediation with the ECB and the Clearing & Guarantee Fund, ABACO, covered bonds) by containing the ratio of encumbered assets to total assets.

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

- credit risk:
  - continuing the reduction of the gross NPL stock through the operational implementation of a plan that sets clear quantitative reduction objectives (intermediate and final), which in addition to continuing disposals through structured finance operations - especially with GACS support – is also being pursued through: (i) the development of a highly skilled hub and procedures for the large-scale management of NPLs dedicated exclusively to recovery activities; and (ii) the strengthening of the impaired credit management model to trigger remedial actions from the first signs of deterioration in the position;
  - continuing the qualitative repositioning of the portfolio risk profile through the implementation of credit strategies with new targeted production to: (i) achieve a sustainable portfolio objective consistent with the Group's risk appetite through targeted strategies that combine the customer's risk level with proportionate guarantees; and (ii) mitigate the concentration risk of the portfolio in respect of individual borrowers (or group of connected customers) and specific economic sectors through individually specified risk limits for Group companies that foster the diversification of the loan portfolio;
  - continuing management initiatives, moving ahead of expected developments in the loan/credit exposure portfolio affected by COVID-19 support measures (i.e. loan payment moratoriums).
- financial risks:
  - aligning of the strategy for the financial portfolio with monetary policy decisions issued in response to the pandemic emergency, in particular the ECB decision of December 2020 extending TLTRO operations until 2024;
  - establishing a financial portfolio (the strategic portfolio) of Italian government securities to support net interest income, financed back-to-back through the ECB or through market repos, commensurate with the facilities available under recent monetary policy actions (TLTRO-III), with the portfolio gradually being wound down until their expiry;
  - dynamically managing the financial portfolio (the investment – HTCS portfolio) through: (i) the search for extra returns from market volatility, in compliance with the risk limits and capital resources allocated to these operations; (ii) the optimization of the cost of funding through greater use of "market" forms of funding in compliance with the established duration gap limits; and (iii) the gradual diversification of the portfolio with EU government assets, as well as financial and corporate assets with high credit standing;
  - efficiently managing at the Group level excess liquidity and the interest rate risk profile on the banking book in order to optimize the mismatching between Group assets and liabilities and minimize the sensitivity of net interest income and seek alternative returns from the market (e.g. use of ECB tiered facilities, greater penetration of asset management);
  - completing initiatives involving the financial segment through consolidation of the operating model and the offer of asset management services.

UNCERTAINTIES

Impact of the COVID-19 pandemic

In Italy, which represents the primary scenario in which the Group develops its operations, the economic recovery is being consolidated, thanks in part to the good performance of the vaccination campaign and the improvement in the health outlook.

According to updated economic projections, growth will strengthen sharply in the second half of the year; reaching values of around 6% on average for the year, enabling the recovery of well over half of the contraction in output recorded in 2020. With the support of fiscal policy, including measures financed with European funds, and the maintenance of favorable monetary and financial conditions, the expansion should consolidate and remain strong sustained in the next two years as well, with growth currently forecast at more than 4%.

Uncertainties persist, however, bearing in mind the fact that the forecast scenario is based, among other things, on the effective continuation of the vaccination campaign and the containment of infections: critical issues are represented by the considerable variability vaccination coverage levels in different countries, the spread of virus variants, the impact of the gradual scaling back/elimination of the support initiatives implemented by the authorities, the effective ability of the labor market to recover, and the inflationary pressures generated by the health emergency. Any delays in the implementation of the recovery measures provided for in the National Recovery and Resilience Plan (NRRP) could also weaken the outlook for recovery.

Lending activity represents the core business of the Group and, consequently, the main source of risk assumed. Although it is reasonably likely that any increase in new impaired loans in the coming months will be smaller than that observed in previous recessions (thanks to the support measures adopted by the Government, the low interest rates associated with the still very expansive stance of monetary policy and a strong economic outlook), the Bank of Italy, in its *Economic Bulletin*, has underscored signs of deterioration at the level of the national banking system in the credit quality performing loans held by debtors who have experienced significant increase in credit risk (classified in “stage 2” in accordance with international accounting standards).

In this context, taking due account of the temporary nature of widely adopted the loan repayment moratoriums, the Group’s enhanced ability to adequately assess the quality of portfolios thanks to the initiatives it has implemented to strengthen credit safeguards through more stringent policies and control mechanisms takes on particular importance. It is useful to recall not only the important initiatives launched as part of the NPL strategy adopted in March 2021, but how, in particular for non-performing exposures that have experienced a slowdown in recovery rates, the Group has continuously and effectively supported the initiatives begun before its establishment for the progressive reduction of the NPL stock.

In these circumstances, the Group's strategies to maintain adequate levels of capitalization, with forward-looking assessments of the capital position that safeguard the quality and amount of own funds and containment of risks, also take on importance.

In this scenario, also essential is the ability to manage ICT risks and digital security, while paying particularly close attention to the growing number and new forms of financial crime that have, as the reader will be aware, characterized periods of severe economic upheaval and taking account of the inevitable jump in customer use of online banking services. With regard to the exposure to operational risks, the pandemic has produced an increase in cyber security and IT risk, also associated with the significant use of digital services and the use of remote working and web collaboration tools. The potential risks inherent in business continuity have also increased, reflecting the greater dependence on network infrastructures and equipment to ensure user access to the information system. However, it is believed that these potential risks have been adequately mitigated by the numerous initiatives promptly adopted by the Group since 2020 to strengthen control and monitoring systems (such as, for example, upgrading the access authentication system).

The Group pays constant attention to the assessment and prompt adoption of appropriate measures to contain the potential impact on operations of the various risks and uncertainties and the consequent adjustment of strategies to the changing environment. These risks and uncertainties are also the subject of constant monitoring through our risk policies, updating those policies and monitoring them to ensure their adequacy and implementation.

All the risks and uncertainties to which the Group is exposed undergo constant careful evaluation aimed at identifying the impact of changes in market parameters and conditions on the company’s performance, partly with a view to their representation in our financial reporting. For more information on the assessments of the main areas of the financial statements involved, please see the details provided in the notes to the financial statements.

10. INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

Supervisory Review and Evaluation Process (SREP)

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), on November 17, 2020, the supervisory authorities notified Iccrea Banca that as a result of the COVID-19 pandemic it had taken the pragmatic decision to not adopt a new SREP decision, instead maintaining the prudential requirements determined in 2019 SREP decision for all of 2021.

Accordingly, the consolidated own funds requirements for 2021 remain:

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

Given the above, for 2021 the Iccrea Cooperative Banking Group is therefore required to meet:

- a Total SREP Capital Requirement (TSCR) of 10.5%, of which at least 7% shall consist of Common Equity Tier 1 instruments;
- an OCR equal to 13%, of which at least 9.5% shall consist of Common Equity Tier 1 instruments.

With regard to the Group's affiliated banks, the SREP decision did not impose own funds requirements to be met on an individual basis. Therefore, in order to comply with the aforementioned consolidated requirements, mechanisms have been provided for their allocation at individual level within the main risk governance processes (i.e. RAF, EWS), compatibly with the capital resources of each affiliated bank, thus ensuring that the Group's strategies and capital constraints are also reflected at the individual level.

As already mentioned, on March 12, 2020 the ECB, having noted that the banks subject to supervision could have encountered difficulties in ensuring continuous compliance with capital requirements as a result of the COVID-19 emergency and the related impact on their activities, operations and capital and liquidity situation, granted significant supervised entities the possibility of using equity instruments not qualified as Common Equity Tier 1 to meet part of the additional Pillar 2 own funds requirements. In this regard, on April 8, 2020, the ECB notified Iccrea Banca of the decision to change the composition of the additional Pillar 2 own funds requirement notified on December 4, 2019. With this decision, the supervisory authorities amended the initial SREP decision, keeping the previous quantitative requirements unchanged but allowing the additional Pillar 2 own funds requirement (P2R) to also be met with Additional Tier 1 and Tier 2 instruments, within the limits of certain percentages. More specifically, at least 56.25% of the P2R shall be held in the form of Common Equity Tier 1 (CET1), with Tier 1 capital accounting for at least 75%.

Despite this possibility, the current capital structure of the Group provides for the coverage of this requirement entirely with CET1 capital.[18]

ICAAP (Internal Capital Adequacy Assessment Process) e ILAAP (Internal Liquidity Adequacy Assessment Process)

During the first half of 2021, activities concerning the application of the Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP) were performed and completed.

More specifically, the ICAAP and ILAAP processes were implemented for all the respective process phases – i.e. identification, measurement, and assessment of risks under both baseline and adverse scenarios, etc. – providing for the assessment and certification of the adequacy of capital (for the Capital Adequacy Statement - CAS) and liquidity (for the Liquidity Adequacy Statement - LAS).

The analyses performed in assessing adequacy were developed, consistent with the "ECB Supervisory expectations on capital planning information to be included in the ICAAP package" received in February last year, which emphasizes the centrality of capital adequacy in ensuring the ability of financial institutions to operate during the current pandemic.

The findings of the assessments were formalized within the Group ICAAP and ILAAP package, which was submitted to the supervisory authorities in April 2021.

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:

[18] With regard to the possibility, the Group conducted studies at both the consolidated and individual levels in order to identify the complete scope of risk governance arrangements strictly connected to the SREP decision and therefore potentially impacted by these changes, with particular regard to the issues of capital adequacy and the effects deriving from the application of capital management and capital allocation approaches.

More specifically, considering the special characteristics of the methodological and operating systems of the risk governance frameworks defined and adopted by the Group, these studies concentrated:

- at the consolidated level, on the Risk Appetite Framework, the ICAAP framework and the Recovery Plan, with specific reference to the thresholds defined for the capital adequacy indicators;
- at the individual level, on the key and unique operating mechanisms of the ICBG (the Guarantee System - GS - and the Early Warning System), the definition of the reference thresholds for the execution of the stress test for GS purposes (the GS threshold), the consequent quantification of the readily available funds (RAFs), the associated allotment of the funding obligation among the participating banks and the determination of the thresholds in the EWS and RAF.

The analysis confirmed the appropriateness of covering the P2R requirement entirely with CET1 instruments.

- with regard to the regulatory perspective, the CET1 and TC ratios were stably above the established thresholds both at the regulatory level and in terms of the main risk governance processes and had significant capital buffers over the time horizon considered (the 2023 baseline provides for a capital buffer over OCR+P2G of about €2.9 billion and €1.5 billion over the target threshold for CET 1 and TC respectively;
- from the economic perspective, risk-taking capacity showed that the levels of capital determined on a going-concern basis were amply sufficient to cover potential unexpected losses in relation to the Group's risks.

The various assessments conducted, taking account of the integrated-perspectives approach under adverse conditions, pointed to an overall profile of capital adequacy at the consolidated level over the entire time horizon considered. Specifically, the CET1 and TC ratios were stably above the minimum levels required under particularly adverse conditions over the time horizon considered.

The ILAAP assessments, in turn, indicated adequate overall liquidity for the ICBG over the entire time horizon, both at short term and over the longer term, taking account of both baseline operations and the adverse scenario. In particular, the estimated evolution of the LCR and NSFR indicators over the plan period did not reveal any critical issues in terms of the adequacy of operating and structural liquidity, as the expected positioning in the baseline scenario is consistent with the objectives set out in the RAS and the projection in the stress scenario exceeds not only the regulatory threshold but also the risk capacity specified in the 2021 RAS.

Recovery Plan

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 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.

The Group has drawn up and maintains its Recovery Plan in line with the relevant regulatory provisions and in line with the Risk Appetite Framework it has adopted. In particular, during the first half of 2021, the updating of the Group Recovery Plan was begun.

In this regard, the assessment/analysis performed in order to assess the Group's capacity to restore the performance and financial position of all Group companies in the event of highly adverse scenarios characterized by idiosyncratic and systemic risks also took account of the evolution of the COVID-19 emergency.

Minimum Requirement of Eligible Liabilities (MREL)

With regard to Pillar II capital adequacy, the "MREL" indicator represents the minimum requirement for eligible liabilities introduced by the Bank Recovery and Resolution Directive (BRRD). The objective of the requirement is to ensure the proper functioning of the bail-in mechanism, increasing the ability to absorb losses and rebuild the capital position of the entity, thereby guaranteeing the continuity of critical economic functions during and after a possible crisis.

In May 2021, Iccrea Banca, as the Parent Company, received the decision of the Single Resolution Committee on the determination of the minimum requirement of own funds and eligible liabilities (MREL - Minimum Requirement of Eligible Liabilities) on a consolidated basis, including the subordination requirement, the intermediate targets and the final target to be achieved by January 1, 2026.

The decision provides for compliance with the following two mandatory targets:

- an intermediate target to be achieved by January 1, 2022 equal to 20.57% of the total risk exposure amount (including the combined buffer requirement of 2.5%) and 6.40% of the total exposure measure;
- a final target to be achieved by January 1, 2026 equal to 24.35% of the total risk exposure amount (including the combined buffer requirement of 2.5%) and 6.40% of the total exposure measure.

With regard to the subordination requirement, the Group is required to comply at the consolidated level by January 1, 2022 and January 1, 2024, with the greater of:

- 16.0% of the total risk exposure amount (including the combined buffer requirement of 2.5%);
- 6.40% of the total exposure measure.

A subordination requirement equal to 16% of the total risk exposure amount is applied to Iccrea Banca.

In order to comply with these requirements, the general-hybrid approach adopted by the Single Resolution Committee requires consideration of the following elements:

- own funds at Group level calculated in accordance with the provisions of the CRR;

- eligible liabilities of Iccrea Banca with a residual maturity of more than one year, including subordinated debt securities and subordinated loans that are not included in additional Tier 1 or Tier 2 instruments, which satisfy the eligibility conditions set out in Article 45 of the Bank Recovery and Resolution Directive (BRRD - Directive 2014/59/EU) as amended by Directive 2019/879/EU.

Finally, the Single Resolution Board announced non-mandatory intermediate reporting objectives concerning the total amount of risk exposure (including the combined capital buffer requirement of 2.5%) in accordance with a linear path for the period between mandatory targets (i.e. 2023-2025).

11. INTERNAL CONTROL SYSTEM

Structure of the Group internal control system

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.

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.

Consistently with the most recent update of the Group policy concerning the organization of the corporate control functions in December 2020, the centralization of the corporate control functions is implemented operationally in the various entities of the Group in the form of a model of operations that calls for the outsourcing of the corporate control functions to the Parent Company, governed by appropriate outsourcing agreements.

The Internal Audit function

The Chief Audit Executive (CAE) area, working through the various coordinated organizational units, performs the third-level controls aimed at assessing the functioning, adequacy, comprehensiveness and reliability of the internal control system, the information system, the risk management process and the risk appetite framework, and provides recommendations aimed at improving the effectiveness and efficiency of the Group's organization, governance and of the risk management and control processes and policies.

The CAE Area is organized into the following units:

- "Audit Operational Support", which handles operational and administrative activities in support of the CAE, the internal audit managers of the affiliated banks and companies of the direct and indirect scopes, and the heads of the other organizational units of the function in meeting their respective obligations;
- "Audit Governance", which supports the CAE in governance, defining processes, methodologies and tools and in planning and supervising internal audit activities and remote controls, as well as in performing the quality assurance activities of the function;
- "ICT Audit", which performs IT audits in order to provide assessments on the overall IT risk situation with regard to the Parent Company, the companies subject to the latter's management and coordination, and any external providers;

- "Parent Company and Direct and Indirect Scope Audit ", which is responsible for performing internal audit activities for the Parent Company and the companies within the direct and indirect scope19 in support of the CAE and the internal audit managers of the companies within the direct and indirect scope, based specific outsourcing agreements, and in accordance with the processes, methods and tools of the function. The unit also supports the CAE in coordinating consolidated audit activities or issues concerning the entire Group;
- "Mutual Bank Audit", which is responsible for conducting internal audits at the affiliated banks, supporting the CAE and the internal audit managers of those banks, based on specific outsourcing agreements and in accordance with the processes, methods and audit tools defined by the function. This unit includes not only the internal audit manager of the mutual banks but also the Internal Audit Supervisor, who works with the Mutual Bank Audit manager in supervising, supporting and coordinating the correct application of the audit processes, methods and tools in carrying out internal audit activities and in the management of the resources under the responsibility of the internal audit managers of the affiliated banks;
- "Network Audit", which is responsible for conducting internal audits of the branches of the affiliated banks of the Group and of Banca Sviluppo in line with the processes, methodologies, and audit tools defined by the function. Within the unit, a functional position of Internal Audit Coordinator has been established, with the responsibility for supporting the Head of Network Audit in the supervision and coordination of Internal Audit activities at branches: (i) ensuring methodological and operational consistency with the guidelines defined by the function; ii) providing assistance in scheduling resources; iii) supporting the performance of audit activities and related reporting; and iv) monitoring the network audit activities in order to ensure compliance with the approved audit plans.

The CAE chairs the Corporate Control Functions Coordination Committee and acts as Head of Internal Systems for Reporting Violations for the Parent Company and for the companies within the direct scope of consolidation. The internal audit managers of the mutual banks perform this role for the individual affiliated banks.

The Risk Management function

The Chief Risk Officer (CRO) area is responsible for the overall Risk Management Framework, comprising the identification, measurement/evaluation, monitoring and mitigation of corporate risks. In this context, it is responsible for the governance and performance of second-level control activities relating to risk management, in accordance with the internal control system implemented by the Group. It acts as the reference unit for the corporate bodies of the Parent Company for the matters under its responsibility, offering an integrated and summary vision of all first and second pillar risks assumed and managed by the individual entities and by the Group as a whole.

The organizational model of the Risk Management function provides for the establishment of central organizational units (the so-called management component) to:

- ensure the overall governance of the risks and the supervision of control at Group level, guaranteeing the ongoing oversight of development and maintenance activities for the regulatory, methodological and operational frameworks;
- ensure the oversight of the companies within the direct scope, through the direct performance of activities or the centralization of direction and coordination responsibilities;
- direct, guide and supervise (through systematic quality assurance activities), the Group Company control activities, as well as support the implementation and adoption of the strategies, policies and processes defined by the Parent Company.

The overall system of second-level control activities is implemented in the Group companies through a local component that is represented, in line with the outsourcing model, by the heads of the company's Risk Management function (the Risk Manager) and the related teams, placed in the organizational units of the Parent Company's Risk Management function.

In the early months of 2021, the organizational structure of the Parent Company's Risk Management function underwent revision/fine-tuning. This organizational revisions should be framed within the continuation of the overall process of fine-tuning the structure of the CRO area, leveraging the experience gained by the function in the two years since the start of the Group within the overall operating model of the function. In particular, this reorganization was intended to achieve:

- a greater focus on risk management and monitoring at the Group level combined with additional centralized monitoring of risk governance issues, with greater technical-operational integration of the methodological and application components of the related framework;
- a further consolidation of the macro-structure of the CRO area, taking account of the implementation of centralization with the Parent Company of the Risk Management function on behalf of the subsidiaries within the direct scope;
- an additional focus of the mission of the Mutual Bank Risk Management unit on operational management of the controls of the affiliated banks, with a view to strengthening the centrality of executive management with strong integration in the operations of local risk managers;

[19] See note 1.

- the organizational rationalization of cross-functional support activities (technical secretariat).

In order to achieve the above, the organizational structure of the Risk Management function is broken down into the following organizational units:

- "Risk Governance & Strategy" unit, which oversees all risk governance and risk strategy issues for the Group in respect of the affiliated banks, the companies within the direct scope and the Parent Company, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme, and performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities. The unit also coordinates and monitors strategic projects for the CRO area.;
- "Group Risk Management" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the estimation, integration and management of specific risks, (ii) supports the process of defining the Group risk appetite, identifying any risk mitigation measures where necessary and/or advisable and (iii) develops Group-level stress testing exercises and (iv) contributes to the preparation of the Group Recovery Plan;
- "Mutual Bank Risk Management" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The RM units have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area and therefore represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management, and coordinate the managers in charge of the Risk Management functions of the affiliated banks;
- "Validation and Support for Cross-Functional Activities" unit: reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed and operates as a transversal support center, ensuring and promoting coordinated management of the operational and liaison mechanisms between the units of the Risk Management function.

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 heads of the units of the function and the individual compliance officers of the affiliated banks and Group companies 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.

The Parent Company's Compliance function therefore operates through the units located at the headquarters of the Parent Company and through the local compliance units responsible for providing compliance services to the affiliated banks. The provision of these services is carried out in accordance with the service levels defined in the agreements for the outsourcing of the function between the Parent Company and affiliated banks and the companies of the direct scope.

The centralized model is implemented organizationally through the outsourcing to the Parent Company of the compliance functions of the affiliated banks and the companies of the direct scope subject to supervision.

Consistent with the provisions of the outsourcing agreements, in the case of affiliated banks, the operational activities provided for under the second-level control model for the management of compliance risk are delegated to the local compliance units. In the case of supervised companies within the direct scope, they are delegated to the competent headquarters units of the CCO area.

The organizational model for the instrumental companies in the direct scope, which are not required to establish a Compliance function, provides for:

- the appointment of a compliance manager at the companies in order to monitor compliance risk in accordance with the Group methodology;
- the establishment of a unit within the CCO area whose duties include that of providing guidelines and coordination to the compliance manager.

In this context, based on the Group's organizational and operational model and the outsourcing agreements for the compliance function of the affiliated banks, the Parent Company's Compliance function identifies, evaluates and monitors the applicable regulations for the entire Group, measuring and assessing the impact of these 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.

In order to take into consideration the special features of the Group, the organizational structure of the CCO Area is divided into the following organizational units:

- Compliance Governance, which is responsible for continuously monitoring the regulations applicable to the Group and interdepartmental consistency of compliance consulting activities, also monitoring the evolution of the regulatory framework. It is also charged with the operational supervision of the second-level control model for the management of compliance risk relating to the companies in the direct scope subject to supervision, as well as the centralized coordination of compliance activities in the regulatory areas overseen by specialist functions and those relating to the unsupervised companies, for which a specific compliance manager has been appointed (with the exception of BCC Sistemi Informatici);
- Affiliated Mutual Bank Compliance, the compliance unit of the affiliated banks, is organized territorially through Local Compliance units, who are responsible for performing the operational activities envisaged by the second-level control model for managing compliance risk adopted by the Parent Company;
- ICT Compliance is responsible for the management and assessment of compliance risk associated with ICT issues for the affiliated banks, the companies within the direct scope and the Data Protection Officer, including responsibility for the compliance activities of BCC Sistemi Informatici;
- Methodologies, Processes and Systems, which is charged with ensuring the constant management and maintenance of the technical rules of the function, of the associated IT applications, of the control methodologies and of the uniform reporting standards for the management of compliance risk for the Group;
- Planning and Reporting oversees the planning of compliance activities, preparation of reporting and information flows at the consolidated level for all the legal entities of the Group and at individual level for the companies within the direct scope that do not have a compliance officer. It also monitors the service level agreements for the compliance services governed by the outsourcing agreement with the companies in the direct scope;
- Data Protection Officer, which is responsible for monitoring compliance, within the Group, with the General Data Protection Regulation (GDPR) and other external or internal regulations regarding the protection of personal data, for the attribution of responsibilities, for awareness-raising and training for personnel who participate in data processing and related control activities. The head of the Data Protection Officer unit is the Data Protection Officer of Iccrea Banca.

The Anti-Money Laundering function

The Anti-Money Laundering function is the Group-level organization responsible for second-level control 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 (including internal rules) 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 AML structures. The Chief AML Officer has been granted authority for reporting suspicious transactions for Iccrea Banca by the Board of Directors, after consulting the Board of Auditors

The implementation of the Anti-Money Laundering function in accordance with the model developed at the time the ICBG was established, in order to take into consideration the special features of the Group, included the structuring of the following units involved in countering the risk of money laundering and terrorist financing:

- the Affiliated Bank AML unit, with a focus on the coordination and operational control of the anti-money laundering control model relating to the affiliated banks. In particular, the Anti-Money Laundering function of the affiliated banks, outsourced to the Parent Company under the outsourcing contracts and mainly deployed through the local offices of the Parent Company, is subject to the coordination and monitoring of the Affiliated Bank AML unit. To this end, the so-called Local AML units have been created to report to the Affiliated Bank AML unit. These local units represent the anti-money laundering structures of the local offices, which under the outsourcing contracts are responsible for performing the support activities envisaged by the second-level control model for the management of money laundering and terrorist financing risk;
- the Direct Scope AML unit, which coincides with the Anti-Money Laundering unit of Iccrea Banca. It verifies the adequacy and compliance of the latter's internal control system and the procedures adopted, as well as the reliability of the anti-money laundering applications. It is also responsible for the coordination and operational oversight of the anti-money laundering control model for the companies in the direct scope,20 whose anti-money laundering functions are outsourced to the Parent Company under outsourcing agreements and performed by the Institutional & Retail AML unit and the Lending AML unit. The unit is also responsible for managing anti-money laundering controls over the payment services of the e-money sector and the intermediation services provided on behalf

[20] Non-bank/non-financial subsidiaries that are not required by law to establish an anti-money laundering function but which have been asked to comply with anti-money laundering and terrorist financing obligations by third parties or by the Parent Company shall establish local anti-money laundering units to support the Anti-Money Laundering function of the Parent Company.

of the affiliated banks, direct scope companies and intermediated institutions, as well as for the other services performed by Iccrea Banca on behalf of the various entities of the Group.

With regard to the above model, during the first half of 2021:

- the definition of the new structure of the CAMLO area was completed for the companies within the direct scope, with the creation of the Institutional & Retail AML unit and the Lending AML unit and the centralization of AML responsibilities and suspicious transaction reporting for the companies of the direct scope as well;
- the project for the adoption of the "Gianos® 4D" computer system was completed for Iccrea Banca and the companies BCC CreditoConsumo, BCC Risparmio & Previdenza and Iccrea BancaImpresa, and similar activities were begun in the period for BCC Lease and BCC Factoring, which will complete the implementation process by the end of this year. This activity is intended to standardize the processes of customer profiling and identification/evaluation/reporting of potentially suspicious transactions, for which purpose an updated version of the control catalog for the companies of the direct scope has also been released;
- the migration to the BCC SI computer system of the affiliated banks that use the Allitude system continued, as envisaged within a specific project scheduled for completion by June 30, 2022;
- the "Group AML Evidence List" was released in order to ensure, especially during the customer on-boarding phase, the sharing of key AML information already held by the individual Group entities;
- the update of the "Group policy for the governance and management of money laundering and terrorist financing risk (AML Policy)" was published. This update was made necessary by the continuous evolution of the reference regulatory framework and the completion of the process of outsourcing the AML functions of the mutual banks and the companies within the direct scope to the Parent Company. The second level due-diligence regulations for both the direct scope companies and the mutual banks are undergoing a review, which will be completed by the end of this year;
- the update of the process rules relating to the reporting of suspicious transactions for affiliated banks has been published to complete the regulatory framework for this area;
- the legislation issued by the supervisory authorities was analyzed, any related shortcomings identified and the necessary organizational changes adopted. Among other measures, following UIF Communication of February 11, 2021 on the prevention of financial crimes connected with the COVID-19 emergency: 1) a specific notice was sent to all entities of the CAMLO area and specific “COVID” indicators within transaction monitoring applications were developed and implemented.

In response to the findings of the inspections conducted by the Bank of Italy, initiatives have been undertaken and controls have been implemented or planned to resolve issues in certain areas identified by the inspections.

More specifically:

- in order to further strengthen oversight of transactions by officers of the affiliated companies, in May 2021 the AML function of the Parent Company started a review of the analyses performed by the AML managers, which will be completed in November 2022. The results will guide the analysis of the quality of the AML managers of the mutual banks in order to develop any consequent;
- a reassessment was conducted of the qualifications and number of people assigned to local AML control activities;[21]
- for the management of a number of Calabrian mutual banks that unsatisfactory assessments following inspections, the Parent Company function took steps to implement radical governance changes and to define a new AML structure.

For two other mutual banks (one from Campania and one from Lazio) with negative inspection findings (for Campania mutual bank, the sanctions have - for now - only targeted individual managers), the function promptly took steps to implement a number of "tactical" solutions, taking all necessary initiatives to improve the control system as a whole, including targeted IT projects already finalized in the Remediation Plan developed following the other inspection reports referred to above.

The following breaks down IT projects concluded or begun during the period that were designed at least in part to address the issues raised in inspection findings:

- implementation of the system for the automatic renewal of know-your–customer assessments for specified categories (customers with a low or insignificant AML risk profile) as regulated by the Parent Company;
- implementation of limits for advanced ATMs and self cashier services;
- centralization of suspicious transaction reporting to complete the implementation of the organizational model of the Anti-Money Laundering function and related development of the IT functions to support the new process;
- evolution of KRIs (Key Risk Indicators for monitoring the AML risk of Group entities);

[21] At June 30, 2021, 68% of the existing AML managers of the mutual banks around the country had been already been rotated out of their positions.

- initiation of back office projects by Sinergia in order to provide support to the affiliated banks in completing the know-your-customer questionnaire, using a uniform and standardized process in accordance with the instructions of the Parent Company;
- start of the review of the RIAS algorithm for customer profiling;
- start of the project for the development of artificial intelligence algorithms to sort “unexpected" transactions identified by transaction monitoring procedures.

The Anti-Money Laundering function also makes a substantive contribution to the provision of specific indicators to the EWS and, subsequently, to the classification of the mutual banks in the cases provided for by internal rules. It also transmits reminders of the need for a Remediation Plan from the area’s Chief AML Officer. These plans are then monitored and assessed before any proposals to improve a classification.

Director responsible for the Internal Control System

Within the architecture of the internal control system of the Iccrea Cooperative Banking Group, the Group policy on the structure of the corporate control functions as updated by the Parent Company in October 2020 extended the requirement for the appointment of a director responsible for the internal control system to all Group companies subject to supervision. This was done 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 companies, 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 companies 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 Group’s supervised companies and the affiliated banks, the director responsible for the internal control system:

- provides opinions to the Board of Directors concerning proposed appointments of the heads of the corporate control functions and the Suspicious Transaction Report (STR) delegates;
- interacts directly with the heads of the corporate control functions of their entity and monitors their activities and their results on an ongoing basis;
- monitors the execution of the guidelines established by the Board of Directors and the corporate bodies of the Parent Company, drawing on the assistance of the corporate control functions, constantly evaluating the adequacy and effectiveness of the internal control system;
- examines in advance activity plans, annual reports and any additional reporting relating to the control activities performed by the corporate control functions for the Board of Directors;
- provides assessments and recommendations to the Board of Directors concerning compliance with the principles that must guide the internal control system and company organization.

Given the need to ensure that the directors responsible for the control systems of the affiliated banks can develop appropriate understanding of and experience in these issues, specific training activities were launched within the broader context of the corporate governance training plan for the directors. These activities will involve the CAE, CRO, CCO and CAMLO areas, each in their operational areas of responsibility.

12. OTHER SIGNIFICANT INFORMATION

Iccrea rating

In view of the recent instability in the financial markets as a result of the COVID-19 emergency, the rating agencies conducted a general review of their ratings of the leading banks. More specifically, for the Group:

- on February 24, 2021, Fitch Ratings confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at "BB-", with a revision of the outlook from "negative" to "stable";
- on March 26 2020, S&P Global Rating confirmed its rating of the medium/long-term debt of Iccrea Banca and Iccrea BancaImpresa at "BB", with a revision of the outlook from "stable" to "negative". The rating was subsequently confirmed on November 24, 2020;
- on December 2, 2020, DBRS Morningstar lowered its rating of the medium/long-term debt of Iccrea Banca from "BBB (low)" with a "negative" outlook to "BB (high)" with a "stable" outlook.

Treasury shares

At June 30, 2021 Iccrea Banca SpA did not hold any treasury shares.

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

The control activities and processes relating to the generation of the information required for the preparation of the financial reports (annual and interim financial statements) are an integral part of the Bank's general control system for managing risks. While noting that no internal control system can entirely eliminate the risks of error or fraud, but can only measure those risks and lessen the likelihood of occurrence and mitigate the effects, these features seek to provide a reasonable guarantee of the veracity, accuracy, reliability and timeliness of financial reporting.
The control system is based upon two primary guidelines.

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

The annual consolidated and interim financial statements are audited by Mazars SpA, which also conducted an accounting review pursuant to Article 14 of Legislative Decree 39/2010.

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

Transactions with related parties

Group policy for the management of conflicts of interest and transactions with related parties governs the management of conflicts of interest in respect of transactions with related parties, decisions within the scope of application of Article 136 of the Consolidated Banking Act and Article 2391 of the Italian Civil Code and, where applicable, conflicts of interest connected with the application of the Early Warning System. It establishes the responsibilities of the companies subject to the management and coordination of the Parent Company, creating management arrangements consistent with the regulations established by the Bank of Italy while at the same time serving the Group's organizational and corporate structure.

With particular regard to transactions with connected parties, the policy underscores the obligation to comply with the limits on exposures to connected parties established in prudential supervisory regulations and lays down specific evaluation, decision-making and reporting procedures that involve, where necessary, the TCP committees set up within the companies of the banking group.

In addition, decision–making procedures have been tailored to the risk level of the transactions involved. Since the materiality threshold envisaged under supervisory regulations is 5% of consolidated own funds, a lower threshold, equal to 5% of the individual own funds of the Bank, has been established to identify significant-value transactions of lesser importance for which the enhanced decision-making process should be activated.

In order to streamline the procedures for low-risk transactions, the Policy fully exempts certain operations from the decision-making and disclosure procedures, including the low-value transactions, transactions connected with guarantee interventions, the centralization agreements between the affiliate banks and the Parent Company and the intercompany service agreements governed by the Group rules if their value classifies them as being of lesser importance. Although the materiality threshold would be €1 million on the basis of the applicable legislation for all entities of the ICBG, lower thresholds have been set in relation to the type of company and the amount of own funds.

On December 18, 2020, the Board of Directors of Iccrea Banca approved an update of the Policy designed to implement the amendments to the regulations approved by the Bank of Italy with the 33rd update of Circular 285 of 2013 and to fine-tune certain aspects that emerged following the issue of the new regulations.

During the period, there were no transactions with connecting parties approved by the deliberating body despite an adverse opinion of the TCP Committee.

In order to strengthen the oversight of this type of transaction and ensure the continuous monitoring of developments and the total value of exposures in relation to the limits established by the Parent Company - on the occasion of the annual update of the Group Risk Appetite Statement - the scope of the indicators included therein was expanded by introducing, among others, an indicator measuring exposures to related parties and connected parties, operationally implemented at both a consolidated level and the individual level of the Group banks.

The results of the monitoring activities are included in the periodic reporting to the corporate bodies produced for RAF/RAS purposes on a quarterly basis.

As far as transactions with related parties are concerned, during the period no positions associated with atypical or unusual transactions whose significance or scale might have raised concerns about the integrity of the company's financial position were undertaken.

Part H – "Transactions with related parties" in the notes to the financial statements provides information on the remuneration paid to key management personnel and loans and guarantees granted, in compliance with Article 136 of the Consolidated Banking Act.

Mutual banks under administration

With regard to the EWS classification at March 31, 2021,[22] 12 of 131 affiliated banks were classified in risk classes from "E" to "G", representing a situation of "critical" risk, unchanged on the previous classification of December 31, 2020, equal to 9.2% of the affiliated banks of the Iccrea Cooperative Banking Group and 5.3% of total assets. During the first quarter of 2021, no new banks were classified as "critical", while 3 of the latter were classified to a worse risk class.[23]

An analysis of the risk profiles of the EWS indicators indicates a positioning gap with respect to the threshold levels for capitalization, profitability and asset quality indicators, as well as, in a number of cases, governance and internal control system issues.

With the directive classifying a bank as in a "critical" risk state, the process for the mutual banks under administration by the Parent Company functions provides for the performance of an analysis of the critical issues, the definition of strategy proposals for the resolution of those issues, the identification of corrective actions under the strategy developed, the preparation of memos and documentation for the Parent Company's assessment and decision-making bodies (CIBA and Board of Directors), the preparation of a draft EWS directive and corrective action plans and the transmission of the formalized directive and plans, and the provision of support to the mutual banks for the preparation/execution of the corrective action plans, monitoring of actions and outcomes, and reporting.

In compliance with the provisions of the Cohesion Contract and the Group policy for the Early Warning System, the Parent Company performed the following main activities with respect to the "critical" affiliated banks during the first half of 2021:

- technical analyses to assess critical issues and identify a path for their resolution;
- definition of specific EWS directives for 5 mutual banks in a situation of critical risk providing for corrective actions to resolve the critical issues and, in 3 cases, corrective action plans that also serve as their 2021-2023 strategic plans;
- participation in the definition of the 2021-2023 strategic plans for 2 mutual banks;
- guided 8 mutual banks in situations of critical risk towards mergers to resolve their situations;
- participation in the preparation and/or updating of the merger plans for 3 affiliated banks in a situation of critical risk and the related authorization applications submitted to the supervisory authorities;

[22] Most recent formal update at the time of preparation of this financial report.
[23] In all three cases, from risk class "E" to "F".

- monitored the execution of the activities required by the EWS directive, reporting the results to CIBA on a monthly basis and to the Board of Directors on a quarterly basis.

13. SUBSEQUENT EVENTS

Findings of the comprehensive assessment conducted by the ECB

The European Central Bank decided to put the ICBG through a comprehensive assessment in 2020, which involves an asset quality review (AQR) and a stress test based on an adverse scenario common to all European banks (EU-wide stress test).

In particular, the comprehensive assessment exercise consists of:

- an asset quality review (AQR) at December 31, 2019, performed using sample analyses (the credit file review for the large SME and RRE mortgage portfolios; for the latter the analysis is used solely for classification purposes) and statistics (the challenger model for the Retail SME, RRE mortgages and Large SME portfolios; for the latter the analysis only involves performing loans);
- a stress test to assess the Group's capital strength on a forward-looking basis with respect to two macroeconomic scenarios, the baseline and adverse (both of which include COVID-19 effects).
- the join-up of the AQR and stress test outcomes.

The results of the exercise were disclosed by the ECB on July 9 and indicated the sufficiency of the capital buffers with respect to the minimums set in the AQR and stress test exercises.

Overall, the results of the AQR exercise indicated €1,683 million in extra-provisioning as follows:

- €93 million related to the "Credit File Review & Collateral Valuation" (CFR);
- €142 million related to the "Projection of Findings", i.e. the projection of the results of the CFR for the "Large SME" positions;
- €1,448 million related to the "Collective Provision Analysis", i.e. the adjustment of collective provisions, of which €382 million on the "Residential Real Estate" portfolio, €898 million on the "Retail SME" portfolio and €168 million on the "Large SME" portfolio, mainly due to conservative adjustments made on the PD and LGD parameters.

Also considering the phase-in effect, the impact of the AQR exercise on the Group's CET1 ratio at 2019 is -162 bps, of which -145 bps attributable to extra-provisioning (net of taxation and prudential filters applied) and -17 bps attributable to the increase in risk-weighted assets (RWAs).

As regards the stress test, consistent with the profound uncertainty engendered by the evolution of the COVID-19 emergency, the exercise was based on conservative assumptions and based on the utmost prudence, considering the scenario defined by the EBA, i.e. a reduction of 13% in Italian 2020 GDP compared with 2019 in the "Adverse" scenario and of one of 9% in the "Baseline" scenario (for the other significant banks, the stress tests launched in 2021 provided for a contraction of 0.7% in GDP in 2020 in the "Adverse" scenario and growth of 3.5% in the "Baseline" scenario) and taking account of the support measures defined by regulators (e.g. the "Quick-Fix") and the Government (' Public Guarantee Scheme"). The stress test had an impact on the Group's CET1 ratio of:

- -118 bps in the Baseline scenario, with a reduction from 15.5% in 2019 to 14.3% in 2022;
- -713 bps in the Adverse scenario, with a reduction from 15.5% in 2019 to 8.4% in 2022.

Finally, the join-up process of the comprehensive assessment had a further impact on the Group's CET1 ratio of -42 bps in the Baseline scenario and -107 bps in the Adverse scenario.

The results of the exercise, which is conducted primarily on a prudential basis and has already been partly reflected in the cost of risk in 2020 and in the first half of 2021, will be taken into account in the Group's planning process and in the related future NPL strategies, in line with the objectives pursued since its establishment of pursuing robust de-risking and at the same time strengthening - in compliance with current accounting standards - the coverage of loans, especially impaired positions.

Reorganization of the Group's "Corporate" segment

As part of the broader evolutionary plan for the "Corporate" segment, following the sale of the Iccrea BancaImpresa lending operations to Iccrea Banca, completed with effect from January 1, 2021, the Group has decided to reduce the company's share capital by a total of €350 million by the end of 2021. This operation would allow release of the excess capital resources held by Iccrea BancaImpresa to Iccrea Banca, optimizing the allocation of capital and enabling the Parent Company to channel those resources to other business segments/other companies within the direct scope in order to achieve the strategic objectives of the Group.

In this regard, in August the supervisory authorities authorized the operation, which, in compliance with statutory provisions and without prejudice to issues connected with the COVID-19 health emergency, should be completed by the end of 2021.

Merger of FDR Gestione Crediti SpA into BCC Gestione Crediti SpA

On July 28, 2021, as part of an initiative launched during the first half of the year to simplify and rationalize the companies within the direct scope of consolidation, the merger instrument for the merger of FDR Gestione Crediti SpA, a company wholly owned by the incorporating company, in turn wholly owned by Iccrea Banca, into BCC Gestione Crediti SpA was signed.

Sale of the stake in HI-MTF

On April 2, 2021, an offer of €313,698.80 from FinecoBank for the acquisition of 5% of HI-MTF Sim – the management company of the HI-MTF market - held by Iccrea Banca was accepted. The transaction, which was completed on July 22, 2021, gave Iccrea Banca a gross capital gain of €63,698.80 and enabled it to maintain a stake of 20% in HI_MTF.

As a result of the sale, similar to the transactions carried out by the other shareholders of HI-MTF Sim, the Company is currently jointly owned by Iccrea Banca, FinecoBank, Banca Akros, Banca Sella Holding and Luzzatti SpA. The entry of FinecoBank, one of the leading European fintech banks, represents a business opportunity for expanding the HI-MTF offering and optimizing the value chain.

Other events relating to the bancassurance sector

Consistent with the reorganization of the Group's bancassurance operations, which is intended to revise and streamline the business management model, on July 31, 2021 Iccrea Banca completed the purchase of almost all the shares held by other shareholders in BCC Servizi Assicurativi. As a result of this process, Iccrea Banca currently holds 99.219% of the company's share capital.

At the same time, with effect from July 16, 2021, the merger of Mocra Srl into BCC Servizi Assicurativi was also completed, thus creating the Group’s first insurance hub in the South.

Agreement with Cassa Centrale Group for reorganization of investments held by the participating mutual banks in the parent company

In October 2019, an agreement was signed with Cassa Centrale Banca SpA, parent company of the second national cooperative banking group (Cassa Centrale Banca Cooperative Banking Group - CCB Group) for the reorganization of the equity investments held by the member mutual banks. to the two cooperative banking groups, as well as of the stakes held in entities belonging to the same groups.

Among other things, the agreement provides for the commitment of Iccrea Banca to ensure, in full compliance with prudential and/or regulatory limits as well as the terms and conditions defined in the agreement itself, that over a period of about 4 years, the mutual banks affiliated with it or, alternatively, other parties designated by Iccrea Banca, shall acquire the investments of the CCB Group in Iccrea. On its part Cassa Centrale Banca undertakes, as parent company, in full compliance with legal and prudential and/or regulatory limits, to ensure that the CCB shares held by companies of the Iccrea Group shall be purchased by the banks affiliated with its group or, alternatively, by other parties designated by Cassa Centrale.

In application of the agreement, in December 2019 2,205,000 Iccrea Banca shares, equal to 8.13% of the share capital, were sold, while at the end of 2020 the Group’s mutual banks purchased a further 897,000 shares, equal to 3.31% of the share capital. In September 2021, the Group mutual banks that will acquire an additional 897,000 shares, equal to 3.31% of the share capital relating to the third tranche of the agreement, were specified. A fourth and final tranche is expected to be carried out by the end of 2022, which will result in the exit of the CCB Group from the shareholding structure of Iccrea Banca.

Operational efficiency - Sale of three back-office business units from mutual banks to Sinergia

As part of the plan to boost operational efficiency and centralize back-office activities, on August 6, 2021, three separate transactions for the sale of business units performing concerning ancillary and administrative activities and their resources to Sinergia were approved. Specifically, the transactions concern: (i) the sale of the back-office operations of BCC Centropadana to Sinergia, which is expected to take effect from September 7, 2021; (ii) the sale of the back-office operations of RivieraBanca Credito Cooperativo di Rimini e Gradara to Sinergia, which is expected to take effect from October 1, 2021; and (iii) the sale of the back office operations of Credito Cooperativo Ravvenate Forlivese e Imolese to Sinergia, which is expected to take effect from November 1, 2021.

Mergers and reorganizations of mutual banks under way

In July and August 2021, the Iccrea Board of Directors approved three additional projects, which are currently being examined by the supervisory authorities. Specifically:

- with a resolution of September 7, 2021, the Board of Directors of Iccrea Banca approved the merger of BCC di Massafra – Società Cooperativa into Banca di Taranto - Banca di Credito Cooperativo - SC, with the new name "Banca di Taranto e Massafra - Banca di Credito Cooperativo – Società cooperativa";
- with a resolution of August 6, 2021, the Board of Directors of Iccrea Banca approved an update of the merger of BCC di San Calogero e Maierato, BCC del Vibonese, BCC del Crotonese - Credito Cooperativo SC and BCC di Cittanova SC into Banca del Catanzarese Credito Cooperativo SC, with the new name: "Banca di Credito Cooperativo della Calabria Ulteriore – Società Cooperativa";
- with a resolution of August 6, 2021, the Board of Directors of Iccrea Banca approved the merger of CereaBanca 1897 Credito Cooperativo - SC into Banca di Verona e Vicenza Credito Cooperativo - SC, with the new name: " BCC di Verona e Vicenza Credito Cooperativo - Società Cooperativa".

These operations are expected to take operational effect by the first half of 2022.

All the operations have the common feature of consolidating the presence of the mutual bank system in the territory and the development of capital solidity and efficiency, which will enable the new entities to further enhance their operations in their local communities.

Finally, in response to the applications of March 19, 2021 and April 23, 2021, respectively, the European Central Bank notified its decision to: i) authorize Vival Banca to issue financing shares in the maximum amount of €16 million and allow the classification of these shares as Common Equity Tier 1 (CET1) instruments up to an aggregate maximum amount of €16 million (up to 620,155 financing shares with a par value of €25.80 each); ii) authorize Banca di Pisa e Fornacette to issue financing shares in the maximum amount of €40 million and allow the classification of these shares as Common Equity Tier 1 (CET1) instruments up to a maximum aggregate amount of €40 million (up to 574,300 financing shares with a par value of €69.65 each).

Both issues will be subscribed by Iccrea Banca SpA pursuant to Article 150 ter, paragraph 4 bis, of the Consolidated Banking Act and Part III, Chapter 5, Section II, sub-section 3.2, of Bank of Italy Circular no. 285.

Outlook for operations

The Group will continue to implement its 2021-2023 business plan. Among the main activities, robust de-risking activities will continue, with the use of disposals of impaired loans and further securitizations, in addition to management initiatives to improve risk indicators. These operations, which are planned to begin as early as the second half of 2021, are currently being structured.

Furthermore, in light of the results of the recently completed comprehensive assessment by the ECB, including the asset quality review (AQR), in addition to the de-risking initiatives already carried out in 2020 and those begun in 2021, the Group will further strengthen risk controls through a prudent provisioning policy, which will also involve the performing loan portfolio.

ATTACHMENT 1 - 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
Iccrea Banca SpA financial statements	**1,401,045**	**190,891**	**47,806**	**-**	**81,166**	**1,720,909**
Financial statements of fully consolidated company	952,422	8,710,568	218,890	30,139	347,691	**10,259,710**
Financial statements of companies accounted for using equity method		(22,422)	1,499		6,284	**(14,639)**
Elimination of Group company dividends		31,595			(31,595)	**-**
Adjustment of intercompany writedowns (revaluations)		122,936				**122,936**
Goodwill		15,426				**15,426**
Other consolidation adjustments	(48,200)	(1,425,832)	(21,683)		(3,243)	**(1,498,958)**
Consolidated shareholders' equity	**2,364,087**	**7,624,594**	**246,945**	**30,139**	**404,985**	**10,670,750**
Non-controlling interests	**58,820**	**1,432**	**433**		**4,682**	**65,367**
Group shareholders' equity	**2,305,267**	**7,623,162**	**246,512**	**30,139**	**400,303**	**10,605,383**

ATTACHMENT 2 - ALTERNATIVE PERFORMANCE MEASURES

Pursuant to Article 16 of Regulation (EU) 1095/2010, the European Securities and Markets Authority (ESMA) has issued a series of guidelines on the criteria for the presentation of Alternative Performance Measures (APMs). APMs are defined as indicators of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The APMs are generally derived (or are based) on the financial statements prepared in accordance with the applicable financial reporting framework. This type of measure is included by European issuers in their regulated information, therefore including the report on operations, when these measures are not defined or provided for by the financial reporting framework. These guidelines are intended to promote the usefulness and transparency of the APMs, in such a way as to adopt a common approach to the use of these measures, with improvements in terms of comparability, reliability and understandability and consequent benefits for the users of financial information.

Measures published in application of prudential rules, including the measures specified in the Regulation and the Directive on capital requirements (CRR/CRD IV), physical or non-financial indicators, and social and environmental indicators are not strictly included in the definition of APM.

Iccrea Banca draws up its consolidated financial statements, in application of Legislative Decree 38 of February 28, 2005, in accordance with the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by Regulation (EC) no. 1606 of July 19, 2002using the formats and rules envisaged by Circular no. 262 of December 22, 2005 “Bank financial statements: formats and rules of compilation” as detailed in Part A of the notes to the financial statements.

Iccrea Banca uses Alternative Performance Measures (APMs), determined in accordance with the aforementioned ESMA guidelines, with the aim of providing a faithful representation of the financial information disclosed to the market in terms of profit or loss, financial position and performance obtained, and which represent useful metrics for investors to facilitate their understanding of developments in performance and financial position.

In addition to being widely used in banking and finance, the APMs selected by Iccrea Banca are considered key factors by management in its decision-making at both the operational and strategic level.

The values for the measures can be reconciled with these financial statements for the purposes of the associated measures defined under the IFRS. For each published measure, the corresponding value for the comparative period is also provided, appropriately restated to ensure a uniform comparison where the restatement is necessary and of a material amount.

Note that the Alternative Performance Measures represent supplementary information with respect to the measures defined in the IFRS and are in no way a substitute for the latter.

Structural indicators

- Loans to customers: the aggregate includes loans to customers recognized as financial assets measured at amortized cost, net of exposures represented by securities.
- Total direct funding from ordinary customers: the aggregate includes outstanding debt securities, current accounts, deposits and other liabilities recognized as liabilities measured at amortized cost relating to funding from ordinary customers, with the exception of the sub-item financing.
- Net loans to customers at amortized cost/Total assets: the measure compares loans to customers at amortized cost with total balance sheet assets. For a definition of the “loans to customers” aggregate, please see the foregoing.
- Direct funding from customers/Total liabilities: the measure is the amount of total direct funding from ordinary customers as a proportion of total balance sheet liabilities. For a definition of “direct funding from customers” aggregate, please see the foregoing.
- Loan to deposit ratio: a measure of loans to customers at amortized cost as a proportion direct funding from customers, which includes amounts due to customers and outstanding securities, and provides summary information on liquidity.

Profitability measures

- ROE - Return On Equity: the measure is calculated as the ratio between net profit and shareholders’ equity and expresses the profitability generated by available equity.
- ROTE - Return On Tangible Equity: the measure is calculated as the ratio between net profit and tangible equity.[24]
- ROA - Return On Assets: the measure is calculated as the ratio between net profit and total assets and provides an indication of the profitability of company assets.

[24] Determined as the difference between the Group’s book equity and intangible assets.

- Cost/Income Ratio: the measure is calculated as the ratio between operating costs (personnel expenses, administrative expenses and depreciation/amortization) and net operating income in the income statement and provides an indication of the efficiency of operations.

Risk measures

- Net bad loans/Loans to customers at amortized cost: the measure is calculated as the ratio between bad loans and total loans to customers. For a definition of the loans to customers aggregate, please see the foregoing.
- Impairment losses on bad loans/Gross bad loans: the measure is calculated as the ratio between total impairment losses accumulated on bad loans to customers and the amount of bad loans to customers, gross of the associated accumulated impairment losses. It provides an indication of the coverage level for bad loans. For a definition of the loans to customers aggregate, please see the foregoing.
- Net NPL Ratio (Net non-performing loans/Net loans to customers at amortized cost): the measure is calculated as the ratio between non-performing loans to customers net of the associated accumulated impairment losses and total net loans to customers. It provides an indication of the quality of the loan portfolio. For a definition of the loans to customers aggregate, please see the foregoing.
- Net UTP/Net loans to customers at amortized cost: the measure is calculated as the ratio between unlikely to pay loans to and total loans to customers. For a definition of the loans to customers aggregate, please see the foregoing.
- Impairment losses on gross UTP/UTP: the measure is calculated as the ratio between total accumulated impairment losses on unlikely to pay loans to customers and unlikely to pay loans to customers gross of the associated accumulated impairment losses. It provides an indication of the coverage level for unlikely to pay positions. For a definition of the loans to customers aggregate, please see the foregoing.
- Impairment losses on impaired past-due exposures/gross impaired past-due exposures: the measure is calculated as the ratio between total accumulated impairment losses on impaired past-due loans to customers and impaired past-due loans to customers gross of the associated accumulated impairment losses. It provides an indication of the coverage level for impaired past-due loans. For a definition of the loans to customers aggregate, please see the foregoing.
- Gross NPL Ratio (Gross non-performing loans/Gross loans to customers at amortized cost): the measure is calculated as the ratio between gross non-performing loans to customers and total gross loans to customers. It provides an indication of the quality of the loan portfolio. For a definition of the loans to customers aggregate, please see the foregoing.
- NPL Coverage (Accumulated impairment losses on non-performing loans/Gross non-performing loans to customers): the measure is calculated as the ratio between total accumulated impairment losses on loans to customers and non-performing loans to customers gross of the associated accumulated impairment losses. It provides an indication of the coverage level for non-performing loans to customers.
- Cost of risk (Net writedowns/(writebacks) for credit risk/net loans to customers measured at amortized cost): the measure is calculated as the ratio between impairment losses for the year and the amount of loans to customers at the end for the year. It provides an indication of the impact of impairment losses on the portfolio during the year. For a definition of the loans to customers aggregate, please see the foregoing.
- Texas ratio: the ratio between gross non-performing loans to customers and the sum, in the denominator, of the related provisions and tangible equity.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		30/06/2021	31/12/2020
10.	Cash and cash equivalents	945,211	992,575
20.	Financial assets measured at fair value through profit or loss	1,825,453	1,892,207
	a) financial assets held for trading	238,365	270,538
	b) financial assets designated as at fair value	315,249	345,094
	c) other financial assets mandatorily measured at fair value	1,271,839	1,276,575
30.	Financial assets measured at fair value through other comprehensive income	7,838,791	7,870,200
40.	Financial assets measured at amortized cost	156,362,386	151,183,057
	a) due from banks	9,589,739	7,215,898
	b) loans to customers	146,772,647	143,967,159
50.	Hedging derivatives	4,074	11,876
60.	Value adjustments of financial assets hedged generically (+/-)	128,125	222,493
70.	Equity investments	117,388	114,502
90.	Property, plant and equipment	2,691,733	2,741,691
100.	Intangible assets	159,932	168,844
	- goodwill	23,022	23,030
110.	Tax assets	1,960,218	2,119,045
	a) current	419,136	489,246
	b) deferred	1,541,082	1,629,799
120.	Non-current assets and disposal groups held for sale	17,040	18,368
130.	Other assets	2,526,777	1,933,255
	Total assets	**174,577,128**	**169,268,115**

Liabilities and shareholders' equity		30/06/2021	31/12/2020
10.	Financial liabilities measured at amortized cost	157,455,386	154,229,489
	a) due to banks	34,668,846	32,114,297
	b) due to customers	110,811,031	108,396,697
	c) securities issued	11,975,509	13,718,495
20.	Financial liabilities held for trading	206,929	243,808
30.	Financial liabilities measured at fair value	676	3,117
40.	Hedging derivatives	364,568	514,743
50.	Value adjustments of financial liabilities hedged generically (+/-)	(922)	(1,672)
60.	Tax liabilities	56,424	101,216
	a) current	14,270	3,495
	b) deferred	42,154	97,721
80.	Other liabilities	5,053,933	3,018,072
90.	Employee termination benefits	275,806	295,178
100.	Provisions for risks and charges	493,579	528,107
	a) commitments and guarantees issued	243,942	232,346
	c) other provisions for risk and charges	249,637	295,761
120.	Valuation reserves	246,512	253,301
140.	Equity instruments	30,139	30,139
150.	Reserves	8,738,569	8,575,538
160.	Share premium reserves	146,043	150,256
170.	Share capital	2,305,267	2,307,331
180.	Treasury shares (-)	(1,261,450)	(1,247,818)
190.	Non-controlling interests (+/-)	65,366	71,517
200.	Net profit (loss) for the period (+/-)	400,303	195,793
	Total liabilities and shareholders' equity	**174,577,128**	**169,268,115**

CONSOLIDATED INCOME STATEMENT

		30/06/2021	30/06/2020
10.	Interest and similar income	1,574,362	1,459,401
	of which: interest income calculated using effective interest rate method	1,428,890	1,422,452
20.	Interest and similar expense	(205,899)	(248,434)
30.	**Net interest income**	**1,368,463**	**1,210,967**
40.	Fee and commission income	721,372	664,777
50.	Fee and commission expense	(65,101)	(60,596)
60.	**Net fee and commission income (expense)**	**656,271**	**604,181**
70.	Dividends and similar income	12,061	4,967
80.	Net gain (loss) on trading activities	12,683	9,473
90.	Net gain (loss) on hedging activities	5,673	(2,167)
100.	Net gain (loss) on the disposal or repurchase of:	286,873	219,039
	a) financial assets measured at amortized cost	238,533	166,127
	b) financial assets measured at fair value through other comprehensive income	48,554	52,634
	c) financial liabilities	(214)	278
110.	Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss	5,246	(12,925)
	a) financial assets and liabilities measured at fair value	(2,902)	(1,707)
	b) other financial assets mandatorily measured at fair value	8,148	(11,218)
120.	**Gross income**	**2,347,269**	**2,033,535**
130.	Net losses/recoveries for credit risk in respect of:	(389,795)	(387,495)
	a) financial assets measured at amortized cost	(388,267)	(377,813)
	b) financial assets measured at fair value through other comprehensive income	(1,528)	(9,682)
140.	Gains/losses from contractual modifications without derecognition	(867)	(2,010)
150.	**Net income (loss) from financial operations**	**1,956,608**	**1,644,030**
180.	**Net income (loss) from financial and insurance operations**	**1,956,608**	**1,644,030**
190.	Administrative expenses:	(1,546,804)	(1,472,317)
	a) personnel expenses	(853,678)	(833,691)
	b) other administrative expenses	(693,126)	(638,626)
200.	Net provisions for risks and charges	(18,941)	(48,053)
	a) commitments and guarantees issued	(11,794)	(3,970)
	b) other net provisions	(7,147)	(44,083)
210.	Net adjustments of property, plant and equipment	(92,031)	(93,393)
220.	Net adjustments of intangible assets	(19,683)	(9,783)
230.	Other operating expenses/income	157,287	165,747
240.	**Operating costs**	**(1,520,172)**	**(1,457,799)**
250.	Profit (loss) from equity investments	20,475	193
260.	Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets	(7,915)	(10,775)
270.	Goodwill impairment	-	(259)
280.	Profit (loss) from disposal of investments	55	(310)
290.	**Profit (loss) before tax on continuing operations**	**449,051**	**175,080**
300.	Income tax expense from continuing operations	(44,065)	(48,455)
310.	**Profit (loss) after tax on continuing operations**	**404,985**	**126,625**
330.	**Net profit (loss) for the period**	**404,985**	**126,625**
340.	Net profit (loss) for the period – non-controlling interests	4,682	4,502
350.	**Net profit (loss) for the period – shareholders' of the Parent Company**	**400,303**	**122,123**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2021	30/06/2020
10.	**Net profit (loss) for the period**	**404,985**	**126,625**
	Other comprehensive income net of taxes not recyclable to profit or loss	**8,930**	**(1,694)**
20.	Equity securities designated as t fair through other comprehensive income	5,124	(1,438)
50.	Property, plant and equipment	(107)	-
70.	Defined-benefit plans	3,913	(256)
	Other comprehensive income net of taxes recyclable to profit or loss	**(16,206)**	**(30,377)**
120.	Cash-flow hedges	19,908	(5,160)
140.	Financial assets (other than equity investments) measured at fair value through other comprehensive income	(37,483)	(24,701)
160.	Share of valuation reserves of equity investments accounted for with equity method	1,369	(516)
170.	**Total other comprehensive income net of taxes**	**(7,276)**	**(32,071)**
180.	**Comprehensive income (Item 10+170)**	**397,709**	**94,553**
190.	**Comprehensive income pertaining to non-controlling interests**	**4,643**	**4,045**
200.	**Comprehensive income pertaining to shareholders’ of the Parent Company**	**393,066**	**90,508**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2021

	As at 31/12/2020	Change in opening balance	As at1/1/2021	Allocation of net profit of previous year		Change in the period									Shareholders' equity 30.06.2021	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
							Equity transactions										
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Change in equity holdings	Comprehensive income at 30.06.2021			
Share capital:																	
a) ordinary shares	2,370,917		2,370,917				4,755	(6,819)					(5,750)		2,363,102	2,305,267	57,835
b) other shares	985		985												985		985
Share premium reserve	154,595		154,595	(6,281)			2,068						(339)		150,042	146,043	3,999
Reserves:																	
a) earnings	8,606,821		8,606,821	167,914		2,799							(5,897)		8,771,637	8,765,645	5,992
b) other	(35,635)		(35,635)												(35,635)	(27,076)	(8,559)
Valuation reserves	253,734		253,734			488								(7,276)	246,945	246,512	433
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,247,818)		(1,247,818)				1,900	(15,532)							(1,261,450)	(1,261,450)	
Net profit (loss) for the period	202,320		202,320	(161,633)	(40,687)									404,985	404,985	400,303	4,682
Total shareholders' equity	**10,336,056**		**10,336,056**		**(40,687)**	**3,287**	**8,723**	**(22,351)**					**(11,986)**	**397,709**	**10,670,750**	**10,605,383**	**65,367**
Shareholders' equity pertaining to shareholders' of Parent Company	**10,264,539**		**10,264,539**		**(40,243)**	**2,134**	**8,723**	**(22,351)**					**(484)**	**393,066**	**10,605,383**		
Shareholders' equity pertaining to non-controlling interests	**71,517**		**71,517**		**(444)**	**1,153**							**(11,502)**	**4,643**	**65,367**		

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT JUNE 30, 2020

	As at 31/12/2019	Change in opening balance	As at1/1/2020	Allocation of net profit of previous year		Change in the period									Shareholders' equity 31/12/2020	Shareholders' equity pertaining to shareholders of the Parent Company	Non-controlling interests
							Equity transactions										
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Change in equity holdings	Comprehensive income at 31/12/2020			
Share capital:																	
a) ordinary shares	2,380,125		2,380,125				4,138	(3,988)							2,380,275	2,314,349	65,926
b) other shares	985		985												985		985
Share premium reserve	151,077		151,077	(331)		(55)	1,686								152,377	148,039	4,338
Reserves:																	
a) earnings	8,418,939		8,418,939	211,698		(6,892)									8,623,746	8,617,488	4,256
b) other	(36,360)		(36,360)			626									(35,734)	(27,172)	(8,562)
Valuation reserves	254,982		254,982			898								(32,071)	223,809	223,794	15
Equity instruments	30,139		30,139												30,139	30,139	
Treasury shares	(1,212,256)		(1,212,256)				1,587	(1,583)							(1,212,252)	(1,212,252)	
Net profit (loss) for the period	244,963		244,963	(211,367)	(33,596)									126,625	126,625	122,123	4,502
Total shareholders' equity	**10,232,594**		**10,232,594**		**(33,596)**	**(5,423)**	**7,411**	**(5,571)**						**94,553**	**10,289,969**	**10,218,510**	**71,459**
Shareholders' equity pertaining to shareholders' of Parent Company	**10,161,857**		**10,161,857**		**(29,787)**	**(6,416)**	**7,918**	**(5,571)**						**90,508**	**10,218,510**		
Shareholders' equity pertaining to non-controlling interests	**70,737**		**70,737**		**(3,809)**	**993**	**(508)**							**4,045**	**71,459**		

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2021	30/06/2020
A. OPERATING ACTIVITIES		
1. Operations	**944,438**	**671,034**
- net profit (loss) for the period (+/-)	404,985	126,625
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(-/+)	(25,011)	2,254
- gains (losses) on hedging activities (-/+)	(1,561)	5,389
- net losses/recoveries on impairment (+/-)	345,954	354,948
- net adjustments of property, plant and equipment and intangible assets(+/-)	111,714	103,435
- net provisions for risks and charges and other costs/revenues (+/-)	69,362	44,195
- taxes, duties and tax credits to be settled (+/-)	41,800	45,129
- other adjustments (+/-)	(2,806)	(10,939)
2. Net cash flows from/used in financial assets	**(5,683,662)**	**(13,481,107)**
- financial assets held for trading	54,260	(130,545)
- financial assets measured at fair value	29,844	(20,548)
- other assets mandatorily measured at fair value	7,661	30,522
- financial assets measured at fair value through other comprehensive income	(1,355)	(276,395)
- financial assets measured at amortized cost	(5,653,301)	(13,122,049)
- other assets	(120,771)	37,907
3. Net cash flows from/used in financial liabilities	**4,801,928**	**12,662,859**
- financial liabilities measured at amortized cost	3,225,897	12,056,945
- financial liabilities held for trading	(36,879)	141,379
- financial liabilities measured at fair value	(2,441)	(4,068)
- other liabilities	1,615,351	468,603
Net cash flows from/used in operating activities	**62,704**	**(147,213)**
B. INVESTING ACTIVITIES		
1. Cash flow from	**28,693**	**35,894**
- sales of equity investments	4,611	509
- dividends on equity investments	4,373	4,967
- sales of property, plant and equipment	17,058	21,804
- sales of intangible assets	2,650	8,614
2. Cash flow used in	**(84,441)**	**(102,445)**
- purchase of equity investments	(7,497)	(16,019)
- purchases of property, plant and equipment	(63,733)	(66,915)
- purchases of intangible assets	(13,211)	(19,511)
Net cash flows from/used in investing activities	**(55,748)**	**(66,551)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(13,632)	4
- dividend distribution and other	(40,687)	(33,596)
Net cash flows from/used in investing activities	**(54,319)**	**(33,592)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(47,364)**	**(247,357)**

Key
(+) generated
(-) used in

RECONCILIATION

	30/06/2021	30/06/2020
Cash and cash equivalents at beginning of period	992,575	956,482
Net increase/decrease in cash and cash equivalents	(47,364)	(247,357)
Cash and cash equivalents at end of period	945,211	709,125

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 consolidated interim financial statements of the Iccrea Cooperative Banking Group have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS - IC), endorsed by the European Commission and in force as of the reporting date.

The IASs/IFRSs have also been applied in accordance with the "Conceptual Framework for Financial Reporting" (the Framework), with particular regard to the key principle of the prevalence of substance over form, as well as the concepts of relevance and materiality of information.

These interim financial statements are in conformity with the provisions of IAS 34 Interim Financial Reporting and have been prepared using the format and main schedules provided for in Circular no. 262 of December 22, 2005 – 6th update of November 30, 2018 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as with the Communication of the Bank of Italy of December 15, 2020 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS.

These consolidated interim financial statements were prepared using the same accounting standards as those used for the consolidated financial statements at December 31, 2020.

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, 2021:

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2097/2020	**Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9** The amendments to IFRS 4 seek to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 Financial Instruments and the date of entry into force of the future IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 (so-called Deferral Approach, Temporary exemption) until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17.	Annual reporting periods beginning on or after January 1, 2021
25/2021	**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform—Phase 2** The amendments provide for specific accounting treatment to distribute changes in the value of financial instruments or leases contracts attributable to the replacement of the benchmark index for determining interest rates over time, thus avoiding immediate repercussions on profit or loss and the unnecessary termination of hedging relationships following the replacement of an interest rate benchmark index.	Annual reporting periods beginning on or after January 1, 2021

The amendments and additions provided for in the endorsed amendments above did not have a material impact on the financial position or performance of the Group.

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

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
1080/2021	**Amendments to IFRS 3, IAS 16 and IAS 37 and Annual Improvements to IFRS Standards 2018–2020** The amendments involve limited-scope modifications of three accounting standards and annual improvements to the following accounting standards: – IFRS 1; – IFRS 9; – IFRS 16; – IAS 41.	Annual reporting periods beginning on or after January 1, 2022.
1421/2021	**Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021** The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022.	Annual reporting periods beginning on or after April 1, 2021. Early application is permitted.

To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: – specify that the right to defer settlement must exist at the end of the reporting period; – clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; – clarify how the terms of a liability impact its classification; and clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	Annual reporting periods beginning on or after January 1, 2022
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers. On June 25, 2020, the IASB published the following amendments to IFRS 17: – a reduction in costs with the simplification of certain requirements of the accounting standards; – the simplification of statements of financial performance; – the deferral of the effective date until 2023.	Annual reporting periods beginning on or after January 1, 2023
To be determined	**Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies** The amendments to IAS 1 are intended to improve disclosure of accounting policies and require companies to disclose material accounting policy information for their financial statements.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted
To be determined	**Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates** The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted
To be determined	**Amendments to IAS 12 (Income Taxes)** The amendments to IAS 12 are intended to specify how to account for deferred tax on transactions such as leases and decommissioning obligations.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted

Other rules issued by the IASB that have not yet entered force are not expected to have an impact on the financial position and performance of the Group, with the exception of indirect impacts from the application of IFRS 17 to insurance companies accounted for using the equity method as from 2023.

SECTION 2: GENERAL PREPARATION PRINCIPLES

The consolidated interim financial statements, prepared in condensed form, consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows, the notes to the financial statements an associated comparative information, along with the report on operations and the performance and financial position of the Iccrea Cooperative Banking Group.

In compliance with Article 5 of Legislative Decree 38/2005, the financial statements use the euro as the reporting currency.

Unless otherwise specified, the figures in the financial statements and the explanatory notes are expressed in thousands of euros.

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

In compliance with the provisions of IAS 1, these consolidated interim financial statements have been prepared on a going-concern basis. In this regard, the Directors are not aware of any significant uncertainties, events or conditions that could warrant serious concern about the Group's ability to continue to operate as a going concern in the foreseeable future, taking particular account of the system of cross-guarantees on which the Cooperative Banking Group is based, for which a discussion is provided in the report on operations.

Content of the financial statements and the explanatory notes

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), earnings reserves, capital reserves and valuation reserves for assets or liabilities, equity instruments and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders’ equity.

Statement of cash flows

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

Content of the notes to the financial statements

The notes to the financial statements include the information required by international accounting standards, with particular regard to IAS 34 Interim Financial Reporting, using the main schedules provided for in Bank of Italy Circular no. 262/2005 – 6th update of November 30, 2018.

SECTION 3 – SCOPE AND METHODS OF CONSOLIDATION

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

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 130 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Please see Assessments and significant assumptions in determining the scope of consolidation in section 2 below for a discussion of the assumptions underlying the determination of the scope of consolidation and the associated consolidation methods.

The following table reports the companies included in the scope of consolidation of the Iccrea Cooperative Banking Group .

1. COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
A.	Consolidated on a line-by-line basis					
1	Iccrea Banca SpA	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 Romegnolo - BCC di Cesena E Gatteo - S.C.	Cesena				
7	Emil Banca - Credito Cooperativo S.C.	Bologna				
8	Banca Cremasca e Mantovana - Credito Cooperativo S.C.	Crema				
9	Banca della Marca Credito Cooperativo S.C.	Orsago				
10	Credito Cooperativo Friuli (CrediFriuli) S.C.	Udine				
11	BCC dell'Adriatico Teramano S.C.	Atri				
12	Banca di Taranto – Banca di Credito Cooperativo S.C.	Taranto				
13	Banca del Catanzarese - Credito Cooperativo S.C.	Marcellinara				
14	BCC di Massafra S.C.	Massafra				
15	BCC di Cagliari S.C.	Cagliari				
16	Banca di Andria Di Credito Cooperativo S.C.	Andria				
17	BCC Agrigentino S.C.	Agrigento				
18	BCC di Napoli S.C.	Naples				
19	BCC di Putignano S.C.	Putignano				
20	Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	Pistoia				
21	BCC di Borghetto Lodigiano S.C.	Borghetto Lodigiano				
22	Banca di Ancona e Falconara Marittima Credito Cooperativo S.C.	Ancona				
23	BCC di Montepaone S.C.	Montepaone				
24	BCC di Basciano S.C.	Basciano				
25	BANCA 2021 — Credito Cooperativo del Cilento, Vallo di Diano e Lucania S.C.	Vallo Della Lucania				
26	BCC della Valle del Trigno S.C.	San Salvo				
27	Valpolicella Benaco Banca Credito Cooperativo S.C.	Costermano Sul Garda				
28	Banca Veronese Credito Cooperativo di Concamarise S.C.	Bovolone				
29	Banca Centropadana Credito Cooperativo S.C.	Lodi				
30	Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	Firenzuola				
31	BCC di Rome S.C.	Rome				
32	BCC Brianza e Laghi S.C.	Lesmo				
33	BCC di Altofonte e Caccamo S.C.	Altofonte				
34	Banca di Anghiari E Stia - Credito Cooperativo S.C.	Anghiari				
35	BCC di Avetrana S.C.	Avetrana				
36	BCC Pordenonese e Monsile S.C.	Azzano Decimo				
37	Banca di Pescia e Cascina - Credito Cooperativo S.C.	Pescia				

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
38	BCC di Arborea S.C.	Arborea				
39	BCC Campania Centro - Cassa Rurale e Artigiana S.C.	Battipaglia				
40	BCC di Bellegra S.C.	Bellegra				
41	Cassa Rurale e Artigiana di Binasco - Credito Cooperativo S.C.	Binasco				
42	Banca delle Terre Venete Credito Cooperativo S.C.	Vedelago				
43	BCC di Busto Garolfo e Buguggiate S.C.	Busto Garolfo				
44	Cassa Rurale e Artigiana di Cantù BCC S.C.	Cantù				
45	BCC di Capaccio Paestum e Serino S.C	Capaccio Paestum				
46	BCC Abruzzese - Cappelle Sul Tavo S.C.	Cappelle Sul Tavo				
47	BCC del Basso Sebino S.C.	Capriolo				
48	BCC di Carate Brianza S.C.	Carate Brianza				
49	Credito Cooperativo Di Caravaggio Adda e Cremasco - Cassa Rurale S.C.	Caravaggio				
50	BCC di Terra D'Otranto S.C.	Carmiano				
51	Banca Alpi Marittime Credito Cooperativo Carrù S.C.	Carrù				
52	BCC di Venezia, Padua E Rovigo - Banca Annia S.C.	Cartura				
53	BCC di Milan S.C.	Carugate				
54	Credito Padano Banca di Credito Cooperativo S.C.	Cremona				
55	Banca dei Sibillini - Credito Cooperativo Di Casavecchia S.C.	Pieve Torina				
56	Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	Reggello				
57	Cassa Rurale e Artigiana di Castellana Grotte Credito Cooperativo S.C.	Castellana Grotte				
58	BCC di Castiglione Messer Raimondo e Pianella S.C.	Castiglione Messer Raimondo				
59	Banca del Piceno Credito Cooperativo S.C.	Acquaviva Picena				
60	Cereabanca 1897 Credito Cooperativo S.C.	Cerea				
61	Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	Chiusi				
62	BCC di Cittanova S.C.	Cittanova				
63	BCC dell'Oglio e Del Serio S.C.	Calcio				
64	Banca della Valsassina Credito Cooperativo S.C.	Cremeno				
65	BCC di Fano S.C.	Fano				
66	BCC di Alba, Langhe, Roero e Del Canavese S.C.	Alba				
67	Credito Cooperativo Cassa Rurale Ed Artigiana Di Erchie S.C.	Erchie				
68	Credito Cooperativo Ravennate, Forlivese E Imolese S.C.	Faenza				
69	Banca di Filottrano - Credito Cooperativo di Filottrano e Camerano S.C.	Filottrano				
70	BCC di Gaudiano Di Lavello S.C.	Lavello				
71	Banca di Pisa e Fornacette Credito Cooperativo S.C.	Pisa				
72	BCC di Gambatesa S.C.	Gambatesa				
73	BCC Agrobresciano S.C.	Ghedi				
74	BCC del Crotonese - Credito Cooperativo S.C.	Crotone				
75	BCC Basilicata - Credito Cooperativo Di Laurenzana e Comuni Lucani S.C.	Laurenzana				
76	BCC Valle Del Torto S.C.	Lercara Friddi				
77	BCC di Leverano S.C.	Leverano				
78	BCC di Canosa - Loconia S.C.	Canosa Di Puglia				
79	BCC di Lezzeno S.C.	Lezzeno				
80	Chiantibanca - Credito Cooperativo S.C.	Monteriggioni				
81	BCC del Garda - BCC Colli Morenici Del Garda S.C.	Montichiari				
82	BCC di Mozzanica S.C.	Mozzanica				
83	BCC di Marina Di Ginosa S.C.	Ginosa				
84	BCC di Nettuno S.C.	Nettuno				
85	BCC del Metauro S.C.	Terre Roveresche				
86	BCC di Ostra e Morro D'alba S.C.	Ostra				
87	BCC di Ostra Vetere S.C.	Ostra Vetere				
88	BCC di Ostuni S.C.	Ostuni				
89	BCC di Oppido Lucano E Ripacandida S.C.	Oppido Lucano				
90	BCC di Pachino S.C.	Pachino				
91	Banca di Udine Credito Cooperativo S.C.	Udine				

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
92	Credito Cooperativo Cassa Rurale e Artigiana di Paliano S.C.	Paliano				
93	Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	Pietrasanta				
94	Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco S.C.	Sant'Elena				
95	BCC di Pergola e Corinaldo S.C.	Pergola				
96	BCC Vicentino - Pojana Maggiore S.C.	Pojana Maggiore				
97	BCC di Pontassieve S.C.	Pontassieve				
98	Cassa Rurale e Artigiana dell'Agro Pontino - BCC S.C.	Pontinia				
99	BCC di Pratola Peligna S.C.	Pratola Peligna				
100	CentRomerca Banca - Credito Cooperativo di Treviso e Venezia, S.C.	Treviso				
101	BCC di Recanati e Colmurano S.C.	Recanati				
102	Banca di Ripatransone e Del Fermano - Credito Cooperativo S.C.	Ripatransone				
103	Cassa Rurale e Artigiana di Rivarolo Mantovano Credito Cooperativo S.C.	Rivarolo Mantovano				
104	BCC della Provincia Romena S.C.	Riano				
105	Banca di Verona e Vicenza - Credito Cooperativo S.C.	Fara Vicentino				
106	Banca del Valdarno - Credito Cooperativo S.C.	San Giovanni Valdarno				
107	Banca di Pesaro Credito Cooperativo S.C.	Pesaro				
108	BCC di Santeramo In Colle S.C.	Santeramo In Colle				
109	Banca TEMA - Terre Etrusche e di Maremma S.C.	Orbetello				
110	BCC di Scafati e Cetara S.C.	Scafati				
111	BCC Bergamo e Valli S.C.	Sorisole				
112	BCC di Spinazzola S.C.	Spinazzola				
113	BCC di Staranzano e Villesse S.C.	Staranzano				
114	Banca Centro Credito Cooperativo Toscana - Umbria S.C.	Sovicille				
115	Credito Cooperativo di San Calogero e Maierato - BCC del Vibonese S.C.	Vibo Valentia				
116	Cassa Rurale - BCC di Treviglio S.C.	Treviglio				
117	BCC di Triuggio e della Valle del Lambro S.C.	Triuggio				
118	BCC della Valle del Fitalia S.C.	Longi				
119	Banca Alta Toscana Credito Cooperativo S.C.	Quarrata				
120	BCC Bergamasca e Orobica S.C.	Cologno Al Serio				
121	Banca Don Rizzo - Credito Cooperativo della Sicilia Occidentale S.C.	Alcamo				
122	BCC dei Colli Albani S.C.	Genzano Di Rome				
123	BCC G. Toniolo di San Cataldo S.C.	San Cataldo				
124	BCC Mutuo Soccorso di Gangi S.C.	Gangi				
125	Banca San Francesco Credito Cooperativo S.C.	Canicattì				
126	BCC S. Giuseppe delle Madonie S.C.	Petralia Sottana				
127	BCC San Michele di Caltanissetta e Pietraperzia S.C.	Caltanissetta				
128	BCC Terra Di Lavoro - S. Vincenzo De' Paoli S.C.	Casagiove				
129	BCC degli Ulivi - Terra di Bari S.C.	Palo Del Colle				
130	RivieraBanca Credito Cooperativo di Rimini e Gradara S.C.	Rimini				
131	BCC di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	San Marco Dei Cavoti				
132	BCC Risparmio&Previdenza SGrpA	Milan	1	Iccrea Banca SpA	100.00	100.00
133	Iccrea BancaImpresa SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
134	BCC Factoring SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
135	Banca Sviluppo SpA	Rome	1	Iccrea Banca SpA	99.26	99.26
136	Banca Mediocredito del F.V.G. SpA	Udine	1	Iccrea Banca SpA	51.99	51.99
137	BCC Gestione Crediti SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
138	BCC Solutions SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
139	BCC Beni Immobili Srl	Rome	1	Iccrea Banca SpA	100.00	100.00
140	BCC Lease SpA	Rome	1	Iccrea BancaImpresa SpA	100.00	100.00
141	BCC CreditoConsumo SpA	Rome	1	Iccrea Banca SpA	100.00	100.00
142	BCC Sistemi Informatici SpA	Milan	1	Iccrea Banca SpA	99.38	99.38
				Banca Sviluppo SpA	0.00	0.00
143	Coopersystem Societa' Cooperativa	Florence	1	Banca di Anghiari E Stia - Credito Cooperativo S.C.	0.00	5.26

		Headquarters	Type of relationship (A)	Equity investment		% share of votes (B)
				Investor	% holding	
				Vival Banca - BCC Di Montecatini Terme, Bientina e S. Pietro In Vincio S.C.	0.01	5.26
				Chiantibanca - Credito Cooperativo S.C.	0.09	5.26
				Banca del Valdarno - Credito Cooperativo S.C.	0.08	5.26
				Banca di Pescia e Cascina - Credito Cooperativo S.C.	0.01	5.26
				Banca Versilia Lunigiana e Garfagnana - Credito Cooperativo S.C.	0.01	5.26
				BCC di Pontassieve S.C.	0.00	5.26
				Banca dell'Elba - Credito Cooperativo S.C.	0.01	5.26
				Credito Cooperativo Valdarno Fiorentino Banca di Cascia S.C.	0.00	5.26
				Banca Alta Toscana Credito Cooperativo S.C.	0.40	5.26
				Banca Centro Credito Cooperativo Toscana - Umbria S.C.	0.10	5.26
				Banco Fiorentino - Mugello Impruneta Signa - Credito Cooperativo S.C.	0.05	5.26
				Banca Valdichiana - Credito Cooperativo di Chiusi e Montepulciano S.C.	0.01	5.26
				Banca TEMA - Terre Etrusche e di Maremma S.C.	0.02	5.26
144	Sigest Srl	Calcinaia	1	BCC Pisa e Fornacette Credito Cooperativo S.C.	100.00	100.00
145	Sinergia SpA	Rome	1	Iccrea Banca SpA	98.59	98.59
				BCC di Lezzeno S.C.	0.58	0.58
				BANCA 2021 — Credito Cooperativo del Cilento, Vallo di Diano e Lucania S.C.	0.02	0.02
				BCC di Napoli S.C.	0.01	0.01
146	Fondo Securis Real Estate	Rome	4	Iccrea Banca SpA	78.02	78.02
				BCC Brianza e Laghi S.C.	1.18	1.18
147	Fondo Securis Real Estate II	Rome	4	Iccrea Banca SpA	84.78	84.78
148	Fondo Securis Real Estate III	Rome	4	Iccrea Banca SpA	89.15	89.15
149	Fondo Il Ruscello	Milan	4	BCC di Milano S.C.	100.00	100.00
150	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 di San Marco Dei Cavoti e Del Sannio - Calvi S.C.	10.56	10.56
151	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

Key:
A) Type of relationship: 1 = majority of voting rights in ordinary shareholders' meeting; 4 = other forms of control.
B) Percentage of votes in ordinary shareholders' meeting.

2. ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS IN DETERMINING THE SCOPE OF CONSOLIDATION

Introduction

The concept of cooperative banking group was introduced into Italian law with Decree Law 18 of February 14, 2016, ratified with amendments with Law 49 of April 8, 2016, which amended Legislative Decree 385/1993 (the Consolidated Banking Act) with the introduction of Article 37-bis establishing, among other things, that the Parent Company shall exercise management and coordination activities "on the basis of a Cohesion Contract that ensures the existence of control as defined by the international accounting standards adopted by the European Union."

From the point of view of the associated regulation, the provisions of Circular 285, 19th update of November 2, 2016, "implement articles 37-bis and 37-ter of the Consolidated Banking Act concerning the cooperative banking group . They govern the prudential and supervisory requirements to be met by the parent company, the minimum content of the Cohesion Contract, the characteristics of the joint and several guarantee system and the requirements of membership in the group. The cooperative banking group is based on the management and coordination powers of the parent company, defined in the Cohesion Contract agreed between the latter and the affiliated mutual banks, which are intended to ensure the unity of strategic direction and the control system as well as compliance with the prudential provisions applicable to the Group and its members, including by way of measures issued by the Parent Company that are binding on the affiliated banks".

A cooperative banking group, as defined in Bank of Italy Circular 285 - 19th update, is a group of entities affiliated to a central body pursuant to Article 10 of Regulation (EU) no. 575/2013 (the CRR), with the simultaneous presence of a mutual guarantee system. In particular, the definition of Central Body, defined in Article 2, paragraph 4, letter a) of Directive 77/780/EEC, establishes that:

- the objectives of the central body and the affiliated institutions are shared;
- the solvency and liquidity of the central body and of all the affiliated institutions are monitored as a whole on the basis of consolidated accounts.

From the point of view of financial reporting regulations, Law 145 of December 30, 2018 concerning the "State budget for the 2019 fiscal year and the multi-year budget for the 2019-2021 period" (the 2019 Budget Act) amended Legislative Decree 136/2015 "Implementation of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings", with the introduction of Article 2, paragraph 2, letter b) of Directive 86/635/EEC, which governs the consolidated accounts of central bodies.

In particular, Article 1072 of Law 145 of December 30, 2018 amended Article 38 of Legislative Decree 136/2015 with the following paragraph 2-bis: "In the case of cooperative banking groups pursuant to Article 37-bis of Legislative Decree 385 of September 1, 1993, the parent company and the mutual banks affiliated to it by virtue of the Cohesion Contract shall constitute a single consolidating entity".

The single consolidating entity represents the community of interests created by the system of cross-guarantees in the context of the Cohesion Contract, aimed at ensuring the financial and governance unity of the Group as a whole.

The explanatory report to the 2019 Budget Act (*Legge di bilancio 2019. Le modifiche approvate dal Senato della Repubblica, 23 dicembre 2018*) summarizes the effects of the aforementioned regulatory change as follows:

- "for the purposes of preparing the consolidated financial statements, the parent company and the banks belonging to the cooperative banking group shall constitute a single consolidating entity";
- "in the preparation of the consolidated financial statements, the accounting items pertaining to the Parent Company and the affiliated banks shall be recognized on a consistent basis.

The regulatory changes introduced in the Italian legal system are consistent with the position expressed by the European Commission in 2006 regarding the adoption of international accounting standards, according to which the obligation to draw up the consolidated financial statements must be determined in accordance with the provisions of the national legislation transposing European directives[25] notwithstanding the provisions of those accounting standards.

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

Taking account of the foregoing, in particular:

- the provisions introduced with the 2019 Budget Act that specify the procedures for complying with consolidation requirements in the case of groups of banks affiliated to a central body;
- the provisions of the Consolidated Banking Act, which are important in defining the governance powers of the central body over the affiliated mutual banks, defined in the Cohesion Contract;

[25] European Commission, Agenda Paper for the Meeting of the Accounting Regulatory Committee on 24th November 2006, paragraph 4.3. [… the determination of whether or not a company is required to prepare consolidated accounts will continue to be made by reference to national law transposed from the Seventh Council Directive"].

- that the 2019 Budget Act, in introducing paragraph 2-bis of Article 38 of Legislative Decree 136/2015 (in implementation of Directive 86/635) as a special rule, prevails and specifies the generic reference of Article 37 bis, paragraph 1 of the Consolidated Banking Act to control for the purposes of the accounting standards.

The consolidated financial statements of the Iccrea Cooperative Banking Group have been prepared on the basis of the following procedures:

- the entity required to draw up the consolidated financial statements is represented by the aggregation of the central body and the affiliated mutual banks (hereinafter the "consolidating entity");
- in the consolidated financial statements, the accounting entries of the Parent Company and the affiliated mutual banks are recorded at the same values;
- in the consolidated financial statements, the accounting entries of the Parent Company and the affiliated mutual banks are recorded at the existing value reported in the individual financial statements;
- the provisions of IFRS 10 are applied for the purpose of identifying the scope of consolidation of the consolidating entity (subsidiaries of the Parent Company and the affiliated mutual banks);
- IFRS 3 is applicable only for any business combinations between the single consolidating entity and third parties;
- balance sheet and income statement positions between companies included in the scope of consolidation are eliminated in full;
- Parent Company shares held by the affiliated mutual banks are eliminated in full and accounted for as treasury shares of the consolidating entity.

Scope and methods of consolidation

In view of the foregoing, the scope of consolidation of the Iccrea Cooperative Banking Group includes:

- the financial statements of Iccrea Banca SpA in its capacity as Parent Company and Central Body;
- the financial statements of the 130 affiliated mutual banks, which together with Iccrea Banca SpA comprise the Consolidating Entity;
- the financial statements of the companies over which, in application of IFRS 10, IFRS 11 and IAS 28, Iccrea Banca and the affiliated mutual banks exercise control, joint control or significant influence.

Subsidiaries

Subsidiaries are those entities over which the Consolidating Entity has the power to direct the relevant activities as a result of a legal right or a mere situation of fact and is exposed to the variable returns resulting from that power.

More specifically, pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

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

The carrying amount of equity interests in companies either consolidated on a line-by-line basis, held by the Consolidating Entity or other companies within the Group, is eliminated – as the subsidiaries' assets and liabilities are absorbed into those of the Group – offsetting the corresponding percentage of the subsidiaries' equity pertaining to the Group.

Asset and liability items, off-balance sheet transactions, expenses and income, as well as profits and losses which occur between companies falling within the scope of consolidation are eliminated.

Costs and revenues of a subsidiary are included in consolidation from the date on which control is acquired. Costs and revenues from a subsidiary disposed of are included in the consolidated income statement up to the date of disposal, which is to say up to the point at which control over the subsidiary is lost. The difference between the payment received on disposal of the subsidiary and the carrying amount of its net assets at the same date is recognized in profit or loss under item 280 "Gain/(loss) from the disposal of investments". Any residual interest held must be measured at fair value as of the date control is lost.

The share pertaining to non-controlling interests is presented on the balance sheet under item 190. "Non-controlling interests", separately from the liabilities and shareholders' equity pertaining to the shareholders of the Parent Company. The portion pertaining to non-controlling interests is also presented separately in the income statement, under item 340 "Profit/(loss) pertaining to non-controlling interests".

For companies that are included in the scope of consolidation for the first time, the fair value of the costs incurred in order to obtain control of

that equity interest, inclusive of ancillary costs, is measured as at the acquisition date.

Changes in interests in a subsidiary that do not entail loss of control are recognized in equity.

Controlling equity investments held for sale are consolidated on a line-by-line basis and reported separately in the financial statements as a disposal group valued as of the reporting date at the lower of carrying amount or fair value less costs to sell.

Non-material subsidiaries are not consolidated.[26] Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Associated companies

Associates are companies in which the Consolidating entity directly or indirectly holds at least 20% of the voting rights or over which, even with a smaller share of the voting rights, it exercises a significant influence, which is defined as the power to participate in determining the financial and operational policies of the associate without having control or joint control.

More specifically, Significant influence is assumed to exist when the parent company:

- directly or indirectly holds at least 20% of the voting rights of another company;
- is able, including through shareholders' agreements, to exercise significant influence through:
  - representation on the company's management body;
  - participation in the process of setting policies, including participation in the decision-making process concerning dividends;
  - the existence of significant transactions;
  - the exchange of management personnel.

Associates are accounted for using the equity method. Equity in the associated company includes goodwill (net of any impairment loss) paid for the acquisition. The carrying amount of the interest is increased or decreased to reflect the share of the post-acquisition profits or losses of the associate and is recognized in the income statement under item 250. "Profit/(loss) from equity investments". Any distribution of dividends is indicated as a decrease in the carrying amount of the equity investment. The goodwill associated with an associate or joint venture is included in the carrying amount of the investment and does not undergo separate impairment testing.

Any change in the other comprehensive income relating to these investee companies is presented as part of the comprehensive income of the Group. In addition, if an associated company recognizes a change allocated directly to equity, the Group recognizes its share, where applicable, in the statement of changes in equity.

If the portion of the losses pertaining to the Group equals or exceeds the carrying amount of the investment in the associate, further losses are not recognized unless. there is contractual obligation to cover such losses or in the presence of payments made on behalf of the associate.

Unrealized profits on transactions between the Group and its associated companies are eliminated at the same percentage of the Group's interest in the profits of the associates. Unrealized losses are also eliminated, unless the transactions carried out show evidence of an impairment loss on the assets involved. Valuation reserves for associated companies are recognized separately in the statement of comprehensive income.

A number of interests of more than 20%, albeit of limited amount, over which the Parent Company does not have the direct or indirect ability to participate in setting management policies are excluded from the scope of consolidation and classified in accordance with the provisions of IFRS 9. Non-material associates are also excluded from the scope of consolidation. Their exclusion from the scope of consolidation does not have a material impact on Group equity.

Joint arrangements

Entities held under joint arrangements are those over which control is shared under a contractual agreement with other investors. More specifically, a joint arrangement is a contractual arrangement whereby two or more parties exercise joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures based upon the contractual rights and obligations held by the Group. A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. Investments in joint arrangements are accounted for using the equity method. At June 30,

[26] 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.

2021 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.

Structured entities – Real estate investment funds

In the real estate investment funds, the control relationship takes account of the purpose/scope of the operation and has been deemed to exist in the following cases:

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

The consolidated real estate investment funds are Fondo Securis Real Estate, Fondo Securis Real Estate II, Fondo Securis Real Estate III, Fondo Sistema BCC, Fondo Asset Bancari V and Fondo Il 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, plant and equipment in the consolidated financial statements, recognizing any increases/decreases under "*Net gain/loss from valuation at fair value of property, plant and equipment*" in the income statement.

Structured entities –securitizations

In securitizations, the indicators that a control relationship exists include:

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

The segregated assets of the operations originated by banks of the Group that did not give rise to the derecognition of the assigned loans have been consolidated through consolidation of the originating banks.

3. INVESTMENTS IN SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

3.1 NON-CONTROLLING INTERESTS, VOTING RIGHTS OF NON-CONTROLLING INTERESTS AND DIVIDENDS DISTRIBUTED TO NON-CONTROLLING INTERESTS

	Non-controlling interests	Non-controlling interest percentage of votes (1)	Dividends distributed to non-controlling interests
1. Banca Mediocredito del F.V.G. SpA	48.01%	48.01%	-
2. Coopersystem Società Cooperativa	99.21%	26.32%	-

(1) Percentage of votes in ordinary shareholders' meeting

4. SIGNIFICANT RESTRICTIONS

There are no significant restrictions as envisaged under IFRS 12, paragraph 13, applicable to the banks and companies that form the area of consolidation of the Iccrea Cooperative Banking Group .

5. OTHER INFORMATION

Data used for consolidation

The accounting data used for line-by-line consolidation are those at June 30, 2021, as approved by the competent bodies of the companies included in the scope of consolidation, adjusted where necessary to adapt them to the uniform Group accounting policies.

Subsidiaries whose annual financial statements have not been drawn up on the basis of the international accounting standards (IAS-IFRS) prepare a specific reporting package using such standards to permit the Parent Company to perform the consolidation. This reporting package is approved by the boards of directors of the companies.

With regard to the reporting packages of the associated BCC Vita SpA and BCC Assicurazioni S.p.A, in application of the "*deferral approach*" (or *temporary exemption*) provided for under IFRS 9, the companies continue to recognize financial assets and liabilities in accordance with the provisions of IAS 39 pending the entry into force of the new standard on insurance contracts (IFRS 17), which is currently expected in 2023. In accordance with the provisions of Regulation (EU) 2017/1988 of November 3, 2017, the Parent Company has elected to use the temporary exemption from certain provisions of IAS 28, which are indicated in paragraphs 20O and 20P of IFRS 4, and is consequently exempt the use of uniform accounting policies for the two insurance companies in its application of the equity method.

SECTION 4 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the interim financial statements and their approval by the Board of Directors on September 29, 2021, no events occurred that would entail a modification of the financial data approved at that meeting.

SECTION 5 – OTHER MATTERS

Risks and uncertainties associated with the use of estimates

In conformity with the IAS/IFRS, management is required to formulate accounting estimates that can impact the values of the assets, liabilities, costs and revenues recognized in the financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets (e.g. goodwill);
- the use of valuation techniques in the recognition of the fair value of financial assets not listed on active markets;
- the determination of the fair value of financial instruments to be used for financial reporting purposes;
- the estimation and assumptions concerning the recoverability of deferred tax assets;
- the quantification of provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;

- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

Risks, uncertainties and impacts of the COVID-19 pandemic

The main subjective judgments made by management in assessing the impact of the COVID-19 pandemic are summarized below.

The quantification of impairment losses on receivables

As from the financial statements at December 31, 2020, a key element of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency was the effort to revise the credit risk forecasting metrics to factor the conditions associated with the emergency into ordinary valuation processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

The great discontinuities in market conditions brought about COVID-19, although lying within the extraordinary uncertainty generated , by the pandemic, especially looking forward, have prompted a number of exceptional in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, with specific regard to the inclusion of risk metrics for forecasting the main financial and macroeconomic variables contained in the new economic scenarios prepared by external providers and supervisory authorities.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy (Decree Law 18 of March 17, 2020, the “Cure Italy Decree”, and Decree Law 23 of April 8, 2020, the “Liquidity Decree”), the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by our external provider (Prometeia), differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. As from the financial statements at December 31, 2020, these updates led to the development of a version of the models and measurements of the related parameters that is more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole.

Impairment testing of equity investments and goodwill

In compliance with IAS 36, at each reporting date, the Group companies shall verify that there is no objective evidence that the carrying amounts of equity investments and goodwill is not recoverable on the basis of the common guidelines, criteria and methodological models developed by the Parent Company.

The standard also establishes that the annual detailed calculation can be considered valid for the purposes of subsequent assessments as

long as the probability that the recoverable value of the assets is less than the carrying amount is considered remote. This judgment is essentially based on an analysis of events that have occurred and any circumstances that may have changed since the date of the most recent annual impairment test.

With particular regard to the goodwill recognized by the Group banks, the so-called dividend discount model (DDM) in the excess capital variant (which estimates the value of a company on the basis of future dividends attributable to shareholders) was used for the full company CGU, while the discounted cash flow (DCF) in the "levered variant" (which estimates the value of the economic capital of a company as the sum of the present value of cash flows to the shareholders that it will be able to generate over a specific explicit planning period for prospective performance/financial data and the residual value at the end of that period, discounted at a rate equal to the cost of equity) was used for the branches acquired CGU.

At December 31, 2020, the above approaches, which are discussed in greater detail in part B of the notes to the financial statements at that date, were applied on the basis of the data and results of the more recently approved corporate strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

The monitoring of the main impairment indicators performed by the Group as at June 30, 2021 with respect to both goodwill and equity investments did not reveal evidence of a potential reduction in the value of these assets and it was therefore not necessary to re-estimate the recoverable value or recognize impairment losses.

Probability testing of DTAs

In the financial statements at December 31, 2020, the probability testing conducted to verify the conditions for continuing to recognize existing and new deferred tax assets in the financial statements was performed on the basis of the common criteria and methods adopted by the Group, estimating the profit or tax loss (IRES/IRAP) over a forecast period deemed reasonable and verifying that this would be sufficient to ensure recovery of the total amount of DTAs requiring testing.

The estimates and assumptions concerning the recoverability of tax assets in respect of prepaid taxes, which are discussed in more detail in Part B of the notes to the financial statements at December 31, 2020, were based on the most recently approved strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

The monitoring of the performance of the Group companies during the first half of 2021 with respect to the strategic plans used for the execution of the aforementioned probability test did not reveal any evidence of impairment of the deferred tax assets recognized in these interim financial statements.

Contract modifications resulting from COVID-19

Contract modifications and derecognition (IFRS 9)

In light of the severity of the COVID-19 health emergency and its inevitable social and financial repercussions, the Italian government launched a range of financial support measures for the economy (especially for small and medium-sized enterprises, which constitute the backbone of the country's economy). The main authorities, bodies and standard setters at both the national and EU levels developed various support measures for the European banking system in order to support the economies of the areas affected by the emergency.

Since the beginning of the emergency and in close connection with the references and initiatives produced by the Parent Company, the Group has adopted an articulated series of measures aimed at facilitating a prompt response to customer needs, working promptly in acknowledging and, where necessary, adapt to the initiatives undertaken by the various national and European Authorities, with the aim of facilitating as much as possible the timely activation of the support measures gradually defined.

In this context, they were:

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

The most recent EBA intervention in this regard in 2020 was that of 2 December concerning the updating of the guidelines that banks must

apply to legislative or non-legislative moratoriums on the repayment of existing loans. These guidelines were then reflected in the ABI renewals of the initiatives to suspend payments on mortgages and loans already governed by specific agreements with industry and consumer associations.

These last guidelines must first be framed within the context of the effort undertaken by the authorities since the beginning of the pandemic to develop a regulatory framework consisting of certain yet flexible rules for the various forms of payment moratorium available to banks to support their customers. The main stages of this effort are as follows.

The European Banking Authority (EBA) first intervened specifically in this area with a document issued on March 25, 2020 entitled "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures", which addressed the accounting (and prudential) issues relating to the potential reclassification of loans prompted by public or industry-based moratoriums and by other forms of support adopted in response to the pandemic.

The EBA specified that since public or industry-based moratorium measures granted in response to the pandemic were intended to mitigate systemic risks and not specific needs of individual obligors, they should not automatically lead to reclassification under the definition of "forbearance" of loans benefiting from such measures nor should they automatically lead to prudential classification of positions as non-performing for the purposes of IFRS 9 (and therefore of migration between risk stages).

That said, the EBA also emphasized that, even in these specific circumstances, banks were still required to assess the creditworthiness of obligors who benefit from a moratorium and, consequently and possibly, reclassify obligors whose creditworthiness has deteriorated.

In performing such assessments - which could affect a wide range of borrowers - banks must avoid mechanistic assessments and prioritize analyses using risk-based approaches. Furthermore, in the period directly after the moratorium, institutions should nevertheless pay particular attention to those exposures which experience delays in payments or other signs of deterioration in creditworthiness.

On April 2, 2020, the EBA also published the document "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis", which sets out detailed guidelines for public and private loan repayment moratoriums applied by September 30, 2020 (extending the time limit from the original June 30, 2020 deadline, as per the EBA decision published on June 18, 2020), so that positions are not classified as exposures subject to forbearance measures or a distressed restructuring. The guidelines also establish that entities must continue to promptly identify situations of possible financial difficulty of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to the moratorium measures imposed ex lege and those initiated by private actors that are of "general" scope, i.e. have been granted by banks in order to prevent systemic risk through the provision of broad support for all companies temporarily in difficulties due to the pandemic. In this regard, the guidelines set out a series of conditions that must all be met for a moratorium measure to be considered of general scope:

- the moratorium must be based on national law or private initiative. In this case, the moratorium must be broadly applied within the banking sector in order to ensure the uniformity of moratoriums granted by the various credit institutions;
- the moratorium has to apply to a broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer segment (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, the type of exposure (mortgage loans, leases, etc.), or belonging to a particularly affected industry sector, etc.;
- the moratorium must only change the schedule of payments and, therefore, temporarily suspend, postpone or reduce principal and/or interest payments. The moratorium, therefore, cannot involve the modification of other loan conditions (such as the interest rate);
- the moratorium must offer the same conditions to all those who benefit from it;
- the moratorium must not apply to loans granted after the launch of the moratorium;
- the moratorium must have been launched in response to the COVID-19 pandemic and applied before June 30, 2020 (the deadline was extended to September 30, 2020 as per the EBA decision published on June 18, 2020).

Moratoriums granted in response to the COVID-19 pandemic impact the identification and reporting of past due amounts, as the counting of days past due takes account of the suspension of payments. Consequently, such measures should lead to a short-term reduction in the classification of exposures as non-performing as a result of the suspension of the deadlines for counting days past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" of January 18, 2017 established, in relation to moratoriums granted under the provisions of law, that exercising the option to suspend the calculation of days past due during the period of covered by the moratorium, thereby extending the normal period of 90 days, should be assessed as a possible indicator of unlikeliness to pay.

The EBA guidelines of April 2, 2020 referred to above equate moratoriums granted on a private basis in response to COVID-19 to public moratoriums. Consequently, the former also benefit from the interruption of the counting of days past due as long as they comply with the requirements set out in the EBA guidelines. The EBA reiterates that the concessions granted in response to COVID-19, in cases of substantial invariance of the present value of the cash flows following the contract modification, shall not to be considered distressed restructuring, do not involve the transition to default and represent temporary relief for those who are unable to fulfill their contractual obligations due to business

disruptions caused by the pandemic.

The EBA emphasizes that the banks shall in any case to evaluate the possible classification of customers benefiting from the moratoriums as unlikely to pay for the purpose of the definition of default, considering the obligor's ability to meet the new payment plan (regardless of any public guarantee) and excluding the automatic classification of these loans as distressed restructurings.

In this regard, the EBA recognizes that there may be difficulties in carrying out individual assessments for the purposes of classification of positions as non-performing. In this case, banks must adopt a risk-based approach (i.e., taking account of, for example, the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail trade). Therefore, it will be important to identify, after the end of COVID-19 moratoriums, those exposures that present payment delays with respect to the new repayment schedules for the purpose of promptly classifying them as non-performing.

If it meets the requirements indicated above, loans benefiting from the application of a moratorium scheme should not be considered subject to a "forbearance measure" unless they were already benefiting from forbearance at the time of application of the moratorium itself.

On September 21, 2020, the EBA announced that it would not extend the date of September 30, 2020 for the expiry of the extraordinary flexibility measures granted to banks concerning the prudential treatment of moratoriums granted in response to the COVID-19 pandemic, specifying that there should be no automatic reclassification of positions requesting the moratorium by September 30, 2020 for the entire period of suspension of payments.

For the exposures for which a legislative or industry-sponsored moratorium was granted by the banks in the period between September 30 and December 31, 2020, the current rules on the prudential treatment of forbearance measures should apply.

In particular:

- unlike during the period covered by the flexibility granted by the EBA, banks should assess an applicant's possible financial difficulties in settling payments falling due. In case of difficulty, the position affected by the concession measure should be classified as forborne, even in the case of a legislative moratorium;
- in the case of a legislative moratorium, the rules on the definition of default already mentioned provide for a suspension of the count of 90 days of past due payments to classify the company as in default.

As noted earlier, the continuation of the COVID-19 pandemic, taking account of the monitoring of the developments of the pandemic, in particular the impact of the second wave and the consequent new restrictions imposed by many European governments, prompted the EBA to reactivate its guidelines. In particular, in the second amendment of December 2, 2020, the EBA established that for the purposes of the those guidelines, the overall period within which the payment schedule of a given loan agreement is amended in accordance with paragraph 10(c) of the guidelines following the application of general payment moratoriums should not exceed nine months. However, this nine-month maximum limit does not apply to changes in payment schedules agreed for loans granted before September 30, 2020 under a general payment moratorium if the total duration of the changes exceeds nine months.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

As reiterated a number of times in the EBA and ESMA statements cited earlier, these contract modifications must be granted in response to COVID-19 in order to offer broad support to all companies and individuals temporarily in difficulty due to the pandemic in order to prevent systemic risk.

Note that the operational procedures for granting COVID-19 provide for the application of interest to the entire residual liability. This approach implies substantial actuarial neutrality, as also provided for in the Government's explanatory report to the Cure Italy Decree and the EBA statement of April 2, 2020, thus avoiding significant accounting impacts.

The contract modifications in question do not affect the original contractual characteristics and flows of the loans and consequently they do not require derecognition.

Amendment of IFRS 16

On May 28, 2020, the IASB published the amendment to IFRS 16 "COVID-19 Related Rent Concessions", endorsed with Regulation (EU) no. 1434/2020, with application of the amendment for financial statements for periods on or after June 1, 2020. The amendment, which was taken in response to the COVID-19 crisis, allows lessees not to account for temporary reductions and/or suspensions of rent payments granted for the period from the beginning of the pandemic to June 30, 2021 as a direct consequence of COVID-19 as a "lease modification". On the basis of the provisions of IFRS 16, in the event of a change in the original contractual conditions of a lease, it would be necessary to modify the amortization plan of the lease ("lease modification") with consequent recalculation of the liability. The amendment of IFRS 16 makes it possible, as a practical expedient, to treat the unpaid rent as a variable payment, to be recognized as a reduction in costs in the profit or loss, without necessarily having to recalculate the financial liability.

The Commission Regulation (EU) 2021/1421 of August 30, 2021 was published in *Official Journal* L 305 of August 31, 2021, endorsing "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)". Companies shall apply the amendments starting from April 1, 2021 for annual reporting periods beginning on or after January 1, 2021. The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022. In other words, the termination of the period of application of the amendments to IFRS 16 (paragraphs 46A and 46B) has been extended from June 30, 2021 to June 30, 2022, permitting a number of simplifications in accounting for lease concessions granted in connection with Covid-19, such as the suspension or reduction of lease payments.

The companies of the Group have not requested any reduction or suspension of lease payments and, therefore, have not made use of the practical expedient provided for in this amendment.

Consolidated tax mechanism option

Iccrea Banca SpA and the Group subsidiaries belonging to the so-called "direct scope" 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 condensed consolidated interim financial statements have undergone a limited audit by Mazars SpA, which has also been engaged to monitor the keeping of the accounts pursuant to Article 14 of Legislative Decree 39/2010; the engagement for the period 2021-2029 was conferred in execution of the shareholders' resolution of May 28, 2021.

A.2 - THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the consolidated financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI Test" - Solely Payments of Principal and Interest Test).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale (including trading).

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself offers examples of sales deemed admissible within this model. Accordingly, the Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;

  - on the basis of the staging indicator for the loan portfolio;
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
  - when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a "benchmark test", an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is "not genuine", it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 - Financial assets measured at fair value through profit or loss

Classification

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an "other" business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the "host contract"). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

In accordance with the provisions of IFRS 9, reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

Recognition

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

Measurement

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

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

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

For more information on the determination of fair value, please see section A.4 “Fair value disclosures” of Part A of the notes to the financial statements.

Derecognition

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

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

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

Recognition of income components

The results of the measurement of financial assets held for trading are recognized through profit or loss under “Net gain (loss) on trading activities”. The results of the measurement of financial assets designated as at fair value and of those mandatorily measured at fair value are instead recognized under “ Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss”, respectively under sub-items “a) financial assets and liabilities designated as at fair value” and “b) other financial assets mandatorily measured at fair value. Dividends from equity instruments held for trading are recognized through profit or loss under “Dividends and similar income” when the right to receive payment is established.

2 - Financial assets measured at fair value through other comprehensive income

Classification

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (the HTCS business model) and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option envisaged under IFRS 9 was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group’s commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

In accordance with the provisions of IFRS 9, reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured

at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

Recognition

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

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

Measurement

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

Equity instruments classified in this category under the option provided for by IFRS 9 are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo lifetime impairment testing, i.e. calculated over the entire residual life of the financial asset. Equity securities do not undergo impairment testing.

Derecognition

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

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

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

Recognition of income components

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

Interest calculated on debt instruments using the effective interest method, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value, are recognized under “Interest and similar income”.

Writedowns and writebacks for credit risk and the recognition of an impairment loss are recognized under the item “ Net losses/recoveries for credit risk in respect of financial assets measured at fair value through other comprehensive income”, with a corresponding adjustment of the relevant valuation reserve in equity.

Cumulative gains and losses recognized in other comprehensive income are recognized through profit or loss under item 100 “Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income” on the disposal of the asset.

Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 - Financial assets measured at amortized cost

Classification

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset (“hold to collect” business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Specifically, this category includes credit exposures to banks (including the central bank) and to customers that, regardless of technical form (bonds, loans, credit lines and deposits), meet the requirements indicated above.

In accordance with the provisions of IFRS 9, reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties. This occurs, for example, when a relevant activity is begun or terminated after the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

Recognition

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

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

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

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

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

Measurement

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

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

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

The measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

- stage 1 and 2 including performing financial assets;
- stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses (stage 1);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition in an amount equal to the loss allowance for lifetime expected credit losses (stage 2);
- at the time of subsequent measurement of the asset where credit risk has increased significantly since initial recognition but the increase is no longer “significant” in an amount equal to the adjustment of the cumulative loss allowances to take account of the transition from lifetime expected credit losses to 12-month expected credit losses (return to stage 1).

Financial assets recognized in this category are tested for impairment periodically and in any event at the close of each reporting period in order to determine any value adjustments to be recognized at the level of individual loans (or tranches of a security) as a function of the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), appropriately modeled to take account of the provisions of IFRS 9. The amount of the value adjustment recognized through profit or loss therefore takes into consideration so-called forward-looking information and possible alternative recovery scenarios. If, in addition to a significant increase in credit risk, financial assets show objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the assets (classified as “impaired”) and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial assets. The assessment of the impairment loss and the consequent amount to be recognized in profit or loss is conducted on an individual basis or determined by creating groups of positions with a uniform risk profile.

Non-performing loans, unlikely-to-pay positions, restructured exposures and past-due or over-limit exposures are considered impaired in accordance with the applicable rules of the Bank of Italy, consistent with the IAS/IFRS and European supervisory regulations (stage 3).

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

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified as “purchased or originated credit impaired” (“POCI”) and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

Derecognition

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

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

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

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts.

In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
  - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
  - transactions whose objective is to maximize the recoverable amount of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;
- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Interest on financial assets measured at amortized cost is recognized under "Interest and similar income" in the income statement using the effective interest criterion, which takes account of both the amortization of transaction costs and the differential between the initial value and the repayment value.

Gains or losses on the financial assets in question are recognized in profit or loss when the assets are derecognized or have incurred an impairment loss.

More specifically, gains or losses deriving from the sale of an asset are, as previously noted, recognized in the income statement under the item "Gain (loss) on the disposal or repurchase of: a) financial assets measured at amortized cost" on the disposal of the asset.

Writedowns and writebacks for credit risk are recognized under "Net losses/recoveries for credit risk in respect of: a) financial assets measured at amortized cost", with a corresponding adjustment of the relevant provision.

4 - Hedging

The Iccrea Cooperative Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting for each type of hedge (the "opt-out" option).

Classification

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

The types of hedges permitted under IAS 39 are as follows:

- fair value hedges, which are intended to hedge the exposure to the risk of changes in the fair value (due to the various types of risk) of assets and liabilities or portions of assets and liabilities, groups of assets and liabilities, irrevocable commitments and portfolios of financial assets and liabilities as permitted under IAS 39 as endorsed by the European Commission;
- cash flow hedges are intended to hedge the exposure to the risk of changes in the future cash flows on recognized assets or liabilities or on highly probable forecast transactions. This type of hedge is essentially used to stabilize interest flows on variable-rate funding to

the degree that the latter finances fixed-rate lending. In some circumstances, analogous transactions are carried out for certain types of variable-rate lending.

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

The items "hedging derivatives" among assets and liabilities include the positive and negative values of derivatives that establish effective hedging relationships.

Recognition

Hedging derivatives and the hedged financial assets and liabilities are reported in accordance with hedge accounting rules. In particular, derivative instruments with a positive fair value are recognized under "Hedging derivatives" on the asset side of the balance sheet, while derivatives with a negative fair value at the reporting date are recognized under "Hedging derivatives" on the liability side of the balance sheet.

Measurement and recognition of income components

Hedging derivatives are measured at fair value. More specifically:

- in the case of fair value hedges, the change in the fair value due to the risk on the hedged item has a corresponding impact on the income statement, where the change in the fair value of the hedging instrument is recognized. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized in a specific equity reserve in the amount of the effective portion of the hedge and in profit or loss in the amount of the ineffective or overhedging portion. The reserve is reclassified to profit or loss only when the cash flows on the hedged item whose variability is being hedged manifest themselves or in the event the hedging relationship is discontinued in the manner specified for the circumstance that prompted the interruption of the hedge.

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

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

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

Effectiveness is measured at every reporting date through:

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

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument or extinguished early and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, when it becomes certain that the hedged transaction will no longer be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

The changes in the fair value of the hedged instruments and those used to hedge a fair value hedge transaction are recognized in the income statement under " Net gain (loss) on hedging activities". The ineffective or overhedging portion of the cash flow hedging derivative measured with respect to the hypothetical derivative (hedge ineffectiveness) is also recognized under this item.

5 – Equity investments

Classification

The item includes equity investments in subsidiaries, associates and joint ventures. Immaterial entities[27] are not consolidated. Their exclusion from the scope of consolidation does not have a significant impact on Group equity.

Subsidiaries are those entities over which the investor has the power to direct the relevant activities as a result of a legal right or a mere situation of fact and is exposed to the variable returns resulting from that power.

Pursuant to IFRS 10 the control requirement is met when an investor simultaneously has:

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

Joint control is the contractually agreed sharing of control of an arrangement.

Associated companies comprise companies in which the Group holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

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

Measurement

Investments in subsidiaries are measured at cost, while investments in associates or joint ventures are measured using the equity method (for more details, see Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information). Where there is evidence that the value of an equity investment may be impaired, its recoverable amount is determined, taking account of both its market value and the present value of future cash flows. If this value is lower than the carrying amount, the difference is recognized through profit or loss as an impairment loss.

Impairment testing of equity investments

As required by the accounting standards referred to earlier and by IAS 36, if there is evidence (triggers) of possible impairment, equity investments undergo impairment testing to determine whether there is objective evidence that the carrying amount of such assets is not fully recoverable and to determine the amount of any writedown.

Impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the posting of losses or in any case a significant divergence with respect to budget targets or the objectives set out in the long-term plans announced to investors, the announcement/start of composition with creditors or restructuring plans, and the downgrading 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 amount, which is equal to the greater of fair value less costs to sell and the value in use.

[27] The scope of consolidation does not include subsidiaries with total assets of less than €10 million, subject to the condition that the total assets of all unconsolidated subsidiaries do not exceed €50 million.

Derecognition

Control, joint control and significant influence cease in cases in which the power to determine financial and operating policies of the company is removed from the governance bodies of the company and transferred to a governmental body, a court and in similar cases. The equity investment in these cases is subject to the treatment of IFRS 9, as provided for financial instruments.

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

Recognition of income components

Dividends received from equity investments are recognized in the income statement under “Dividends and similar income” when the right to receive payment is established.

Impairment losses on equity investments are recognized in the income statement under the item “Profit (loss) from equity investments”. If the reasons for the impairment loss should be removed following an event occurring after the recognition of the impairment loss, the consequent writebacks are recognized in the income statement (in an amount not exceeding the previous writedowns) under the same item.

The recognition of the income effects in respect of equity investments accounted for using the equity method is discussed in Section 3 – Scope and methods of consolidation in Part A Accounting policies: A.1 – General information.

6 - Property, plant and equipment

Classification

Property, plant and equipment includes land and buildings used in operations and those held for investment purposes, plant, vehicles, furniture, furnishings and equipment of any kind.

According to IAS 16, buildings used in operations are those held for use in the supply of services or for administrative purposes. Pursuant to IAS 40, investment property includes property held to earn rentals or for capital appreciation or both.

The item also includes assets in accordance with IAS 2 - Inventories, which mainly include assets deriving from the enforcement of guarantees or purchase at auction that the Group intends to sell in the near future without carrying out significant restructuring works and which do not meet the conditions for classification in the previous categories (“for use in operations” or “for investment”). This therefore includes assets acquired following the closure of an impaired credit exposure (for example from acceptance of the asset in lieu of the original performance (“datio in solutum”), from the consolidation of companies acquired as a result of loan restructuring/recovery agreements, the non-exercise of the purchase option in a finance lease or the termination of an impaired lease, etc.).

Where the requirements for the application of IFRS 5 to these assets are not met, the Group normally initially classifies the assets as inventories, subsequent measuring them in accordance with the criteria set out in IAS 2, except in rare cases in which the conditions are met for classification as:

- asset held for use in operations (see IAS 16);
- assets held for investment purposes (see IAS 40), insofar as they are held for the purpose of generating income through the receipt of lease payments or for capital appreciation.

Finally, property, plant and equipment also includes the rights of use for assets held under leases (whether finance or operating leases) pursuant to IFRS 16, even though the lessor retains legal ownership of the assets.

Recognition

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

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

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

Property, plant and equipment originally held as collateral for credit and acquired in recovery activities carried out on the basis of specific contracts or legal proceedings is recognized when both of the following conditions are met:

- recovery activities have been completed;

- the Group has acquired ownership of the property.

Normally these exchange transactions lack commercial substance as defined in paragraph 24 of IAS 16 and, consequently, the asset is initially recognized at the carrying amount of the asset given up.

In the rare cases where, in an exception to the general principle mentioned above, the enforcement operation has commercial substance, the asset acquired is initially recognized at fair value.

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset is recognized at the time in which the leased asset effectively becomes available for use.

Measurement

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

For assets purchased and placed in service during the year, the period of depreciation is calculated on the basis of the actual number of days the assets contributes to the production cycle. For assets transferred and/or disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer or disposal.

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

In accordance with the provisions of paragraph 32a) of IAS 40, investment property as defined in IAS 40 is valued using the cost model and is depreciated, with the exception of properties deriving from the consolidation of real estate investment funds, which are measured at fair value since they are connected with liabilities that produce a return directly linked to the fair value of the investment property.

Assets classified as inventory are measured at the lower of recognition cost and net realizable value and are not depreciated. The net realizable value is equal to the estimated price for sale in the normal course of business, net of the estimated completion costs and those necessary for the sale of the asset.

Following initial recognition, assets acquired through recovery or enforcement of guarantees in debt collection activities carried out by the Group for impaired loans are measured in accordance with the criteria established for the classification adopted (for use in operations, for investment purposes, inventories).

Right-of-use assets determined in compliance with IFRS 16 are subsequently measured using a cost model, less depreciation and impairment losses, in accordance with IAS 16.

Derecognition

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

Recognition of income components

Depreciation of property, plant and equipment measured at cost, with the exception of inventories, is recognized through profit or loss under “Net adjustments of property, plant and equipment”.

In the first year, depreciation is recognized in proportion to the period the asset is effectively available for use. For assets sold or otherwise disposed of during the year, depreciation is calculated on a daily basis up to the date of transfer and/or disposal.

If there is evidence of possible impairment of the asset, the asset’s carrying amount is compared against its recoverable amount, 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 amount is recognized in the income

statement. If the reasons for the impairment should cease to obtain, a writeback is recognized in the income statement. The carrying amount following the writeback shall not exceed the value that the asset would have had, net of depreciation, in the absence of the prior writedowns.

Gains (losses) deriving from changes in the fair value of investments deriving from the consolidation of real estate investment funds are recognized in the income statement under "Net gain (loss) from valuation at fair value of property, plant and equipment and intangible assets".

Gains and losses deriving from the disposal or decommissioning of property, plant and equipment are determined as the difference between the net sale price and the carrying amount of the asset. They are recognized in profit and loss at the same date on which the assets are derecognized, under the item "Profit (loss) from the disposal of investments".

7 - Intangible assets

Classification

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

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

Recognition

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

Recognition of intangible assets generated internally, and software in particular, is subject to verification of the above conditions and distinguishing between the research activities and development activities carried out to produce the asset. Costs associated with research cannot be capitalized, as the generation of probable future economic benefits cannot be demonstrated.

Intangible assets can be recognized in respect of goodwill arising from business combinations (purchases of business units). This goodwill is recognized in an amount equal to the positive difference between the purchase price of the business combination (the consideration transferred) and the fair value of the assets and liabilities acquired if that positive difference represents future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

After initial recognition, intangible assets with a finite useful life are recognized at cost, net of total amortization and accumulated impairment losses. Amortization begins when the asset becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended and ceases when the asset is derecognized. Intangible assets are amortized on a straight-line basis, so as to reflect the long-term use of the asset over its estimated useful life, which for application software does not exceed 5 years.

Goodwill is not amortized and is tested for impairment at the reporting date.

Derecognition

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

Recognition of income components

Amortization is recognized through profit or loss under "Net adjustments of intangible assets", as are impairment losses. If the reasons for the impairment of intangible assets other than goodwill should cease to obtain, a writeback is recognized in profit or loss. The value of the asset after the writeback shall not exceed the value that the asset would have had, net of amortization, in the absence of the prior writedowns for impairment.

Writedowns of goodwill are recognized in the income statement under "Writedowns of goodwill". Goodwill previously written down may not be written back.

Gains and losses from the disposal or other transfer of an intangible asset are determined as the difference between the net sale price and the carrying amount of the asset and recognized in the income statement under the item "Profit (Loss) from disposal of investments".

8 - Non-current assets and liabilities and disposal groups held for sale

Classification

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

Properties obtained through the enforcement of guarantees are classified under this item when the following conditions are met:

- the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable. In particular, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Finally, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Recognition

Non-current assets and disposal groups held for sale are valued at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets for which IFRS 5 requires measurement in accordance with the applicable IFRSs (e.g. financial assets within the scope of IFRS 9).

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

The results of the measurement, income, expenses and gains/losses upon disposal (net of any tax effect), of “discontinued operations” are recognized in the income statement under “Profit (loss) after tax of discontinued operations”. Gains and losses associated with individual assets held for sale are recognized under the most appropriate item of the income statement.

Derecognition

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

9 - Current and deferred taxation

Classification

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

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

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

differences" are those that in future periods will give rise to deductible amounts. Deferred taxes are recognized on all taxable temporary differences, with the following exceptions: i) deferred tax liabilities arising from the initial recognition of goodwill or ii) an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax assets are recognized against all deductible temporary differences, tax receivables and unused tax losses that can be carried forward, insofar as it is probable that sufficient future taxable income will be available to allow the use of the deductible temporary differences and the tax receivables and losses carried forward, except for cases in which the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect either the balance sheet or the tax situation.

Deferred tax is calculated by applying the tax rates established in applicable tax law, laws already issued or substantially in force at the reporting date that are expected to be applied during the year in which those assets are realized or those assets are extinguished to taxable temporary differences for which it is likely that a tax charge will be incurred and to deductible temporary differences for which it is reasonable certain there were be future taxable income at the time they become deductible (the probability test).

Current tax assets and liabilities and deferred tax assets and liabilities are offset in the financial statements if, and only if, they relate to income taxes applied by the same taxation authority and there is a legally enforceable right to set off current tax assets against current tax liabilities.

Recognition and measurement

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

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

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

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

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

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

Recognition of income components

Income taxes are recognized through profit or loss, with the exception of those debited or credited directly to equity. Current income taxes are calculated based on taxable income for the period.

In determining income taxes, any uncertainties over tax treatments are taken into account, in accordance with the provisions of IFRIC 23.

Current tax payables and receivables are recognized at the value that payment to or recovery from the tax authorities is expected by applying current tax rates and regulations. Deferred income tax assets and liabilities are calculated, using expected tax rates, on the basis of temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values recognized for tax purposes.

Derecognition

Deferred tax assets and deferred tax liabilities are derecognized in the period in which:

- the temporary difference that originated them becomes taxable for deferred tax liabilities or deductible for deferred tax assets;
- the temporary difference that originated them is no longer relevant for tax purposes;
- for deferred tax assets only, the probability test envisaged by IAS 12 indicates that sufficient future taxable income will not be available.

10 - Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

Derecognition

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

11 - Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks, amounts due to customers and securities issued, comprising all technical forms of interbank and customer funding, repurchase agreements and funding through certificates of deposit, bonds and other funding instruments in circulation, net of any amounts repurchased.

The item also includes liabilities recognized by the lessee in respect of leases (finance or operating) pursuant to IFRS 16).

Recognition

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

Measurement and recognition of income components

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

Interest expense recognized on financial liabilities is reported under “Interest and similar expense” in the income statement.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement under “Gain (loss) on the disposal or repurchase of: c) financial liabilities”. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

12 – Financial liabilities held for trading

Classification

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments representing financial liabilities. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

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

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

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value through profit or loss. Please see Part 4 “Fair value disclosures” of these notes to the financial statements for information on determining fair value.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified,

this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

Recognition of income components

Gains and losses from the measurement of and transactions in financial liabilities held for trading are recognized through profit or loss.

13 - Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the "fair value option"). More specifically, financial liabilities may be irrevocably designated as at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch due to a measurement inconsistency or where they contain one or more embedded derivatives.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

Measurement

After initial recognition, financial liabilities reported under this item are measured at fair value in accordance with the following rules:

- if the change in fair value is attributable to a change in the credit risk of the liability, it shall be recognized in other comprehensive income (equity) and is not subsequently recycled through profit or loss;
- all other changes in fair value shall be recognized through profit or loss under "Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss: a) financial assets and liabilities designated as at fair value".

Pursuant to IFRS 9, this accounting method shall not be applied if would create or enlarge an accounting mismatch in the income statement. In this case, the gains or losses related to the liability falling under this item shall be recognized through profit or loss.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

Recognition of income components

The result of measurement is recognized through profit or loss.

14 - Foreign currency transactions

Classification

In addition to those explicitly denominated in a currency other than the euro, foreign currency assets and liabilities also include those that have indexing clauses linked to the exchange rate of the euro with a specific currency or with a certain basket of currencies.

Recognition

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

For the purposes of translation, foreign currency assets and liabilities are divided into monetary items (classified under current items) and non-monetary items (classified under non-current items). Monetary items comprise cash and assets and liabilities to be received or paid in fixed or determinable amounts of money. Non-monetary items are characterized by the absence of a right to receive, or an obligation to deliver, an fixed or determinable amount of money.

Measurement

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

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

Recognition of income components

Exchange rate differences relating to financial assets/liabilities other than those designated as at fair value and those mandatorily measured at fair value through profit or loss are recognized in the income statement under the item "Net gain (loss) on trading activities". Exchange rate differences relating to the two categories referred to above are recognized in under the item "Net gain (loss) of other financial assets and liabilities measured at fair value through profit or loss". In addition, if the financial asset is measured at fair value through other comprehensive income, exchange rate differences are allocated to the relevant valuation reserve.

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

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

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

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

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, the following steps are followed in recognizing revenue from contracts with customers:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;
- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation”.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer. In the absence of such assets or liabilities, they are recognized under “Other assets” or “Other liabilities”.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”. Amortization is performed over the useful life of the right of use in respect of the buildings and amortization charges are reported under other operating expenses.

Determination of amortized cost

Amortized cost is applied to financial assets and liabilities measured at amortized cost and to the income components of financial assets measured at fair value through other comprehensive income.

The amortized cost of a financial asset or financial liability is the value at which it is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest rate is the rate that discounts the contractual flow of future or received payments until the maturity date or the next repricing date to the present value of a financial asset or financial liability.

For instruments bearing a fixed rate or a fixed rate for periods of time, future cash flows are determined on the basis of the specified interest rate over the life of the instrument. For variable-rate financial assets or liabilities, future cash flows are determined on the basis of the last known rate. At each repricing date, the residual amortization and the effective yield over the residual useful life (i.e. until maturity) of the financial instrument are recalculated.

For purchased or originated credit-impaired financial assets ("POCI"), the effective interest rate corrected for credit risk is calculated, discounting estimated future cash flows over the expected life of the financial asset, taking of account all the contractual terms of the asset (e.g. prepayment options, call options, etc.) as well as expected credit losses.

Financial assets and liabilities transacted on market terms are initially recognized at their fair value, which normally corresponds to the amount paid or received including directly attributable transaction costs and fees: internal marginal costs and income not recoverable from customers are considered transaction costs attributable at the time of initial recognition of the instrument.

These ancillary components, which must be attributable to the individual asset or liability, affect the effective return and cause the effective interest rate to differ from the contractual interest rate: therefore, costs and income referable indiscriminately to multiple transactions and related components that they may be recognized during the life of the financial instrument are not included. Furthermore, costs that the Group incurs independently of the transaction, such as administrative, office supplies and communication costs, are not considered in the calculation of the amortized cost.

Determination of impairment

Financial assets

At each reporting date, the Group determines whether there is objective evidence that a financial asset or group of financial assets has incurred a significant increase in the related credit risk since initial recognition and requires the definition of a methodology for calculating the expected loss (ECL) and the related risk parameters necessary to calculate it, namely: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The staging methodology provides for the allocation each exposure/tranche (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than that specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement;

  In general, in the absence of a rating/PD at the reporting date the exposure is allocated in stage 2 (without prejudice to the use of additional criteria specifically adopted for the management of particular types of portfolios/positions not covered by the use of an internal rating model). In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship, unless they derive from forbearance measures.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;

- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

If at least one of the criteria for classification in stage 2 is activated for a position within the probation period, the probation period recommences from the month in which the criteria that determined the allocation to stage 2 are no longer active.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to the securities portfolio, the functional methodology for staging performing exposures is based solely on quantitative information. Although they consist in comparing the PD/rating class at the origination date and PD/rating class at the reporting date, the approach used makes extensive use of the low credit risk exemption for the purpose of staging exposures, even in the presence of information on credit risk measures at the date of origination. In particular, exposures with a rating better than or equal to investment grade at the reporting date are allocated to stage 1. Exposures associated with securities in default are classified in stage 3.

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 used underwent forward-looking conditioning;
- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the use of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions and the application of the so-called danger rate, conditioned by macroeconomic scenarios;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group uses multipliers (or macroeconomic conditioning factors) that, updated periodically, make it possible to obtain 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 macroeconomic variables.

For the purpose of applying these multipliers, the Group associates the probability of occurrence on a judgmental basis to each scenario. The probability of occurrence of each scenario are 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, the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions, in line 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.

Note that in order to factor in the effects of the pandemic in the calculation of impairment, a so-called COVID-19 effect is considered in the determination of impairment, with the aim of considering the effects of the pandemic both on the macroeconomic forecasts that contribute to the determination of the expected credit loss and in the stage allocation process for exposures, with specific treatments of the portfolio subject to economic support measures.

Equity securities and units of collective investment undertakings

Equity securities and units of collective investment undertakings, regardless of the accounting portfolio to which they are allocated, do not undergo impairment testing as they are measured at fair value.

Other non-financial assets

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

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable amount 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 amount 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 amount. 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 amount 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 amount 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 on the basis of criteria and methodological models in line with best market practice and the literature in this field. Those cash flows are determined using the most recent public business plan or, in the absence of such a plan, an internal forecasting plan developed by management.

Normally, the specific forecasting period covers a maximum time horizon of three years. The flow in the final year of the forecasting period is projected forward in perpetuity, using an appropriate growth rate "g" for the purposes of the terminal value.

In calculating value in use, the cash flows must be discounted using a rate that reflects the current time value of money and the specific risks to which the asset is exposed. More specifically, the discount rates adopted incorporate current market values for the risk-free rate and equity premiums observed over a sufficiently long period of time to reflect different market conditions and business cycles.

With specific reference to the rights of use recognized in accordance with IFRS 16, evidence that an asset may have suffered an impairment loss may be associated both with internal factors (deterioration, obsolescence, etc.) and external factors (market value, technological changes, etc.). Failure to exercise a right of use or the subletting of the underlying asset are considered potential indicators of impairment of the right of use.

Determination of fair value

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

Financial instruments

Please see section A.4 Fair value disclosures for more information on the methods used to determine the fair value of financial instruments.

Non-financial 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 financial guarantees are measured as the greater of the amount of the provision covering the losses determined in accordance with the rules governing impairment and the initial recognition amount (fair value) less (where appropriate) the cumulative amount of the income that the Group has recognized in accordance with IFRS 15 (deferred income).

Any losses and value adjustments on such guarantees are reported under “Net provisions for risks and charges: a) commitments and guarantees issued” in the income statement. Writedowns due to the impairment of guarantees issued are reported under “Provisions for risk and charges: a) commitments and guarantees issued” in liabilities in the balance sheet.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

Business combinations

The transfer of control of an entity (or a group of integrated activities and assets, conducted and managed together) is a business combination.

IFRS 3 requires that an acquirer be identified for all business combinations. The acquirer is the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling entity using the definition of control described earlier, such as for example in the case of an exchange of equity interests, the acquirer must be identified using other factors such as: the entity whose fair value is significantly greater, the entity that possibly pays cash or the entity that issues new equity instruments.

The acquisition (and therefore the first consolidation of the acquired entity) must be accounted for on the date on which the acquirer actually obtains control over the entity or the assets acquired. When the business combination is achieved in a single exchange transaction, the date of exchange normally coincides with the acquisition date. However, it is always necessary to check for any agreements between the parties that may involve a transfer of control before the exchange date.

The consideration transferred as part of a business combination is determined as the sum of the fair value, at the exchange date, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

In transactions involving payment in cash (or when payment is made using financial instruments comparable to cash) the consideration is the agreed price, possibly discounted if payment will be made in installments over a period longer than short term. If payment is made using an instrument other than cash, such as through the issue of equity instruments, the price is equal to the fair value of the means of payment net of costs directly attributable to the equity issue.

The consideration in a business combination at the acquisition date includes adjustments subordinated to future events if envisaged in the transfer agreements and only if they are probable, reliably determinable and made within the twelve months following the date of acquisition of control, while indemnities for a reduction in the value of the assets used are not included as they are already considered in the fair value of the equity instruments or as a reduction in the premium or increase in the discount on the initial issue of debt instruments, where applicable.

The costs related to the acquisition are charges that the acquirer incurs to carry out the business combination. By way of example, these include professional fees paid to auditors, experts, legal consultants, fees for appraisals and the auditing of accounts, preparation of information documents required by regulations, as well as consulting costs incurred to identify potential targets for acquisition if it is contractually established that payment is made only in the event of a successful combination, as well as the costs of registration and the issue of debt or equity securities.

The acquirer must account for the costs related to the acquisition as charges in the periods in which these costs are incurred and the services are received, with the exception of the costs of issuing equity or debt securities, which must be recognized in accordance with the provisions of IAS 32.

Business combinations are accounted for using the acquisition method, under which the identifiable assets acquired (including any intangible assets previously not recognized by the acquiree) and the identifiable liabilities assumed (including contingent liabilities) must be recognized

at their respective fair values on the acquisition date. Furthermore, for each business combination, any non-controlling interests in the acquiree can be recognized at fair value (with a consequent increase in the consideration transferred) or as a proportion of the share of the non-controlling interests in the identifiable net assets of the acquiree.

If control is obtained in stages, the acquirer shall recalculate the interest previously held in the acquiree at its respective fair value on the acquisition date and record any difference with respect to the previous carrying amount through profit or loss. The excess of the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), increased by the value of any non-controlling interest (determined as indicated above), and the fair value of the interest previously held by the acquirer, over the fair value of the assets and liabilities acquired must be recognized as goodwill. However, if the latter exceed the sum of the consideration, non-controlling interest and the fair value of the interest previously held, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost net of accumulated impairment losses. For the purpose of impairment testing, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of part of the assets of the unit, the goodwill associated with the transferred asset is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the transferred asset is determined on the basis of the relative values of the transferred asset and the part retained by the cash-generating unit.

Business combinations can be accounted for provisionally by the end of the reporting period in which the combination occurs, with the accounting to be completed within twelve months of the acquisition date.

If the business combination is carried out for reorganizational purposes, i.e. between two or more entities or businesses that already belong to the same group and the combination does not involve a change in control regardless of the extent of non-controlling interests before and after the business combination (business combinations of entities under common control), the transaction is considered to be without economic substance. Accordingly, in the absence of specific instructions in the IASs/IFRSs and in compliance with the presumptions of IAS 8 which require that - in the absence of a specific standard – an entity shall use of its judgment in applying an accounting policy that provides relevant, reliable, prudent information that reflects the economic substance of the transaction, such combinations are accounted for preserving the values in the financial statements of the acquiree in those of the acquirer.

Mergers are the form of business combination that represents the most complete form of combination, as they involve both the legal and economic unification of the participating parties.

Mergers, whether they are mergers of equals, i.e. with the establishment of a new legal entity following the combination, or the combination of one entity into another surviving entity, are treated in accordance with the criteria illustrated previously, and in particular:

- if the transaction involves the transfer of control of an entity, it is treated as a business combination within the scope of IFRS 3;
- if the transaction does not involve the transfer of control, it is accounted for by preserving the values in the financial statements of the merged entity in the surviving entity.

Targeted Longer -Term Refinancing Operations (TLTRO) with the ECB

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans in the period April 1, 2019 - March 31, 2021. Interest is settled in arrears.

The term of the loans is 3 years, in accordance with the calendar defined by the ECB, with the option of quarterly early repayment, starting from September 2021.

The financial terms applicable to loans under the TLTRO III program have been modified by the ECB on several occasions, as discussed in in the report on operations, which readers are invited to consult for further information.

At its meeting of December 10, 2020, the Governing Council of the ECB decided to further recalibrate the terms applied to the third series of longer-term refinancing operations (TLTRO-III):

- the period in which considerably more favorable conditions will apply has been extended by 12 months, until June 2022;
- three additional operations will be conducted between June and December 2021;
- the total amount that counterparties will be able to borrow under TLTRO-III has been increased from 50% to 55% of the respective stock of eligible loans;
- in order to encourage banks to support the current level of bank lending, the recalibrated terms will only be offered to banks that reach a new target for the volume of lending.

The duration of the set of measures to relax the eligibility criteria applicable to the guarantees adopted on April 7 and 22, 2020 has been extended until June 2022 in order to continue to ensure that banks can make full use of the liquidity-providing operations of the Eurosystem. The Governing Council will review these measures before June 2022, ensuring that the participation of Eurosystem counterparties is not adversely affected.

On April, 30 2021, the Governing Council of the ECB introduced further amendments to the legislation applicable to the TLTRO-III funding program, amending the sanctioning regime applicable for late transmission of required reports and related audits and specifying the reporting and calculation obligations for applicable rates in the event of corporate reorganizations occurring between April 1, 2021 and December 31, 2021.

The characteristics of the TLTRO-III transactions do not allow for immediate classification under cases specifically dealt with by the IAS/IFRS. We believe we can refer by analogy to "IFRS 9 - Financial Instruments" for the purposes of the accounting treatment of the following situations:

- change in the estimates of achievement of the objectives;
- recognition of financial effects, "special interest";
- management of early repayments.

The Group has elected to refer to the provisions of IFRS 9 in accounting for the operations, believing that the funding conditions to which the banks have access through the TLTRO operations promoted by the ECB are on market terms and conditions. These rates can be considered "market rates" since it is the ECB itself that establishes the level, determining this level in line with the lending objectives to be achieved (monetary policy operations). Furthermore, the ECB has the power to change the TLTRO III interest rate at any time. This right of modification by the ECB, however, must be assessed on the basis of paragraph B5.4.5 of IFRS 9 (floating-rate loans), resulting in a change in the internal rate of return (IRR) of the loan to reflect changes in the benchmark rate. A different situation arises when the loan rate changes due to the modification of the forecasts for achieving the benchmark net lending target. In this case, with the same IRR, the modification of future cash flows can only lead to the measurement of the amount of the loan at amortized cost.

Furthermore, the conditions under which interest is to be calculated are a function of the probability of achieving the net lending target.[28]

The operation essentially has the following financial structure:

- it is a floating-rate transaction indexed to the rate on main refinancing operations (MRO), which is the base rate for the main refinancing operations of the ECB;
- in its basic structure it has a spread of -50 bps in the so-called "special interest rate period" from June 24, 2020 to June 23, 2021;
- in the event of achievement of the goal for the "special reference period" (from March 1, 2020 to March 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB's deposit facility (DF);
  - for the "special interest rate period" a cap of -1.00% is applied to the final rate (deposit facility rate – 50bp).
- in the event the target for the "special reference period" is not achieved but the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021) is partially achieved, an intermediate rate between the average MRO and the average deposit facility rate will be applied.

The final rate applicable to each transaction is therefore influenced by three factors:

- the average rate applicable to the ECB's main refinancing operations, currently equal to 0.0% or in case of positive performance, the average deposit facility rate, currently equal to – 0.50%, which can be modified by the ECB during the term of the respective loans;
- a fixed spread, in favor of Iccrea Banca, equal to 4.5 bp, which can be reset to zero under certain conditions, on transactions between Iccrea Banca and the mutual banks participating in the TLTRO group;
- the possible performance of the TLTRO Group as a whole and the individual performance of each mutual bank.

The final rate applied to each loan between Iccrea Banca and the mutual banks is therefore equal to the sum of: (i) the weighted average of the ECB MRO or DF rate, (ii) the fixed spread and (iii) the recognition of any performance incentive. The latter element is determined on the basis of periodic monitoring of developments in net lending in the special period.

On September 9, 2021, the Bank of Italy confirmed that the Iccrea Group had fully achieved the target set for the two-year period March 2019-March 2021 and for the first special period, which guarantees the application of the most favorable rate, equal to -1%, on outstanding loans for the period June 2020-June 2021, the effect of which has already been incorporated in these interim financial statements at June 30, 2021.

[28] This accounting choice is consistent with the Public Statement issued by ESMA on January 6, 2021 regarding the "… the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)".

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 2019 71 mutual banks reconfigured the business model of their financial portfolio, reclassifying about €3.7 billion of securities held under the hold to collect and sell (HTCS) business model to the hold to collect (HTC) business model and reclassifying about €0.3 billion of securities held under the hold to collect (HTC) business model to the hold to collect and sell (HTCS) business model.

No financial assets were reclassified in the first half of 2021.

The following table reports the reclassified carrying amount at January 1, 2020 of the reclassified assets at that date and still recognized at the reporting date as they were not sold or otherwise derecognized during the period.

A.3.1 RECLASSIFIED FINANCIAL ASSETS: CHANGE IN BUSINESS MODEL, CARRYING AMOUNT AND INTEREST INCOME

Type of financial instrument	Original portfolio	New portfolio	Reclassification date	Reclassified carrying amount	Interest income recognized in the period (before taxes)
Debt securities	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	31/12/2019	31,135	-
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	31/12/2019	3,079,487	-

A.4 –FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

For financial instruments measured at fair value, the Group assigns maximum priority to prices quoted on active markets and lower priority to the use of unobservable inputs, as the latter are more discretionary, in line with the fair value hierarchy noted above and discussed in greater detail in section A.4.3 below. The policy establishes the order of priority, the criteria and general conditions used to determine the choice of one of the following valuation techniques:

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

Mark to market

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

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

The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and sufficient volumes are traded 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 definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are

representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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

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

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

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

Mark-to-model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

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

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

- bonds are valued using a discounted cash flow model adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer;
- structured bonds are valued using a discounted cash flow model that incorporates valuations from option pricing models, adjusted for the credit risk of the issuer. The inputs used are yield curves and credit spreads for the issuer, and volatility and correlation surfaces for the underlying;
- derivatives are valued using discounted cash flow models, within the multi-curve framework based on OIS discounting;
- equity and CIU derivatives are valued using the Black&Scholes models (or models based on it, such as the Rubinstein model for forward starts and the Nengju Ju model for Asian options), which includes an estimate of volatility through interpolation by maturity and strike prices on a volatility matric, as well as the inclusion of discrete dividends through the escrowed dividend model. The inputs used are the price of the underlying equity, the volatility surface and the dividend curve;
- derivatives on exchange rates are valued using a discounted cash flow approach for plain-vanilla contracts or a Garman and Kohlhagen model for European options on exchange rates. The inputs are spot exchange rates and the forward points curve and volatility surfaces for plain-vanilla options;
- equity securities are valued at fair value estimated using models applied in valuation practice or using balance sheet, income or mixed methods or with reference to direct transactions in the same security or similar securities observed over an appropriate span of time with respect to the valuation date. They are measured at cost if their carrying amount is below the materiality thresholds set by the Group both at individual and consolidated level and in cases where the cost represents a reliable estimate of fair value (e.g. because the most recent information to evaluate fair value is not available);
- investments in CIUs other than open-end harmonized funds are generally valued on the basis of the NAVs (adjusted if not fully representative of the fair value) made available by the asset management companies. These investments include private equity funds, real estate investment funds and hedge funds;
- medium/long-term loans to customers are measured on the basis of a mark-to-model process using the discounted cash flow approach for the positions and other models for estimating option components where applicable;
- for medium/long-term liabilities, represented by securities for which the fair value option was chosen, the fair value is determined alternatively by either discounting the residual contractual cash flows using the zero-coupon yield curve, by applying the asset swap method or by using other yield curves deemed representative of the Bank's credit standing.

The Group also provides for the possibility of applying valuation adjustments to the prices of financial instruments when the valuation technique used does not capture factors that market participants would use in estimating fair value, for example when it is necessary to ensure that the fair value reflects the value of a transaction that could actually be carried out in a market.

With particular regard to units held in unlisted alternative investment funds (so-called AIFs), in 2020 a specific project was carried out, coordinated by the Parent Company, aimed at determining the "liquidity adjustment" to be applied to the Net Asset Value (NAV) of the unlisted funds held.

The methodological approach adopted provides for the consideration, in line with market best practice, of the following main elements:

- the average holding period of the individual unlisted funds before they can be sold;
- the characteristics of the individual assets held by the fund and their level of volatility in the holding period considered (degree of uncertainty);
- the level of risk aversion reflected in a prudent threshold which, with reference to the distribution of the possible returns/final value of the asset/portfolio considered, makes it possible to measure any divergence from their expected value.

The use of these elements made it possible to estimate a discount with respect to the NAV, calculated as a percentage adjustment of the risk premium linked to the uncertainty concerning potential unfavorable changes in value before their realization while also taking account of the management costs of the funds not incorporated in the NAVs of the individual unlisted funds.

For the purposes of these interim financial statements, the percentage adjustment applied was respectively 3.69% for real estate funds, 9.55% for private debt-non-performing loan funds, 1.28% for private debt-bond bonds and 9.47% for private equity funds.

The factors impacting the need for an adjustment include the complexity of the financial instrument; the credit standing of the counterparty; and the presence of any collateral agreements. In particular, the Group uses a method for calculating the CVA/DVA (Credit Value

Adjustments/Debt Value Adjustments) in order to adjust the calculation of the fair value of uncollateralized derivatives in order to take account of counterparty risk (non-performance risk). The CVA/DVA is not calculated when collateral agreements have been formalized and are operational for derivatives positions.

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

- estimates and assumptions underlying the models used to measure investments in equity securities and units in CIUs;
- Probability of Default (PD) and Loss Given Default (LGD): the parameters are derived from the impairment model. They are used to measure financial instruments for disclosure purposes only;
- credit spreads: the figure is extrapolated to create sector CDS curves using regression algorithms on the basis of a panel of single-name CDS curves. The figure is used to value financial instruments for disclosure purposes only.

A.4.2 VALUATION PROCESSES AND SENSITIVITY

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

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

A.4.3 FAIR VALUE HIERARCHY

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

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets. A financial instrument is considered to be quoted on an active market if prices are readily and regularly available and represent actual market transactions carried out on normal terms on a regulated market or MTF;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics or quoted on inactive markets (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs, such as non-binding quotes provided by infoproviders (Mark to Model approach).

The following are normally considered Level 1:

- shares, debt securities and units of CIUs listed on regulated markets. Units of CIUs include mutual investment funds (UCITS, AIFs and restricted FIAs), SICAVs/SICAFs and ETPs (Exchange Traded Products);
- debt securities listed on Multilateral Trading Facilities (MTF) which meet the “specific requirements for multilateral trading systems” set out in MiFID II;
- debt securities whose fair value is equal to the unadjusted prices provided by brokers/market makers from an active market for an identical instrument and executable at the declared level;
- Units of CIUs whose value (NAV) is provided directly by the market operator;
- listed derivative financial instruments and issued financial liabilities whose fair value at the valuation date corresponds to the price quoted on an active market.

The following are normally considered Level 2:

- debt securities issued by national and international issuers that are not listed on an active market and are measured using approaches that mainly employ observable market inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on observable market inputs;
- OTC financial derivatives entered into with institutional counterparties for which the main inputs are observable market data;
- units of CISs whose prices are provided by the issuing entity (the so-called “soft NAV”).

Finally, the following are normally considered Level 3:

- debt securities not listed on an active market and measured using approaches that mainly employ unobservable inputs;
- debt securities whose fair value is equal to the prices provided by brokers/market makers determined with a valuation model based on unobservable inputs;
- equity securities and issued financial liabilities for which there are no prices quoted on active markets at the valuation date and which are mainly valued using techniques based on unobservable market data;
- OTC financial derivatives entered into with institutional counterparties and measured using pricing models similar to those used for Level 2 valuations but from which they differ in the degree of observability of the inputs used in the pricing techniques;
- financial derivatives entered into with customers for which the fair value adjustment taking account of default risk is significant with respect to the total value of the financial instrument.

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

A.4.4 OTHER INFORMATION

The circumstances referred to in paragraphs 51, 93 letter (i) and 96 of IFRS 13 do not apply to the Group's financial statements as the Group is not managing groups of financial assets and liabilities on the basis of its net exposure to a specific market risk (or risks) or to the credit risk of a specific counterparty and the highest and best use of a non-financial asset does not differ from its current use.

QUANTITATIVE DISCLOSURES

A.4.5 FAIR VALUE HIERARCHY

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

	30/06/2021			31/12/2020		
	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	438,718	1,265,178	121,557	437,866	1,205,425	248,916
a) financial assets held for trading	50,928	184,291	3,146	23,132	243,406	4,000
b) financial assets designated as at fair value	311,946	-	3,303	341,076	-	4,017
c) other financial assets mandatorily measured at fair value	75,844	1,080,887	115,108	73,658	962,019	240,899
2. Financial assets measured at fair value through comprehensive income	7,501,245	267,493	70,053	7,665,827	138,014	66,359
3. Hedging derivatives	20	4,054	-	633	11,244	-
4. Property, plant and equipment	-	452,923	2,657	-	470,664	12,825
5. Intangible assets	-	-	-	-	-	-
Total	7,939,983	1,989,648	194,267	8,104,326	1,825,347	328,100
1. Financial liabilities held for trading	24,067	182,244	618	423	242,649	736
2. Financial liabilities designated as at fair value	551	125	-	2,868	249	-
3. Hedging derivatives	236	364,332	-	93	514,650	-
Total	24,854	546,701	618	3,384	757,548	736

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 30/06/2021	Total 31/12/2020
a) Cash	662,157	788,440
b) Demand deposits with central banks	283,054	204,135
Total	945,211	992,575

The item “Demand deposits with central banks”, which increased compared with the end of the previous year, includes deposits with the Bank of Italy, including €116 million in respect of the instant payments service and €23 million attributable to the Guarantee Scheme operated by Parent Company.

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 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**47,489**	**1,151**	**53**	**17,723**	**1,328**	**59**
1.1 structured securities	786	36	10	2,172	-	10
1.2 other debt securities	46,703	1,115	43	15,551	1,328	49
2. Equity securities	**1,908**	**56**	**3**	**2,609**	**3**	**2**
3. Units in collective investment undertakings	**1,322**	**3,789**	**77**	**2,426**	**5,152**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	50,719	4,996	133	22,758	6,483	61
B. Derivatives						
1. Financial derivatives	**209**	**179,294**	**3,012**	**374**	**236,923**	**3,940**
1.1 trading	209	179,294	3,012	374	236,923	3,940
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)	209	179,294	3,012	374	236,923	3,940
Total (A+B)	50,928	184,291	3,146	23,132	243,406	4,000

The sub-item A.1 – 1.2 “other debt securities” mainly includes government securities held for trading, in the amount of €42.5 million, an increase on the balance at the end of last year.

The sub-item B.1 – 1.1 reports the market value of the derivatives originated by Group operations, down on the end of 2020.

2.3 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**311,946**	**-**	**-**	**341,076**	**-**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	311,946	-	-	341,076	-	-
2. Loans	**-**	**-**	**3,303**	**-**	**-**	**4,017**
2.1 structured	-	-	-	-	-	-
2.2 other	-	-	3,303	-	-	4,017
Total	311,946	-	3,303	341,076	-	4,017

The item 1.2 “other debt securities” reports the balance for securities in which the liquidity from the Guarantee Scheme is invested. The reduction compared with the end of the previous year is attributable to disposals during the period.

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

	Total 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**30,109**	**48,755**	**3,618**	**13,248**	**49,275**	**4,732**
1.1 structured securities	6,484	15,336	305	1,520	17,188	2,128
1.2 other debt securities	23,625	33,420	3,313	11,727	32,087	2,604
2. Equity securities	**16,075**	**6,596**	**35,533**	**11,259**	**5,467**	**26,456**
3. Units in collective investment undertakings	**29,660**	**251,574**	**23,513**	**49,151**	**290,381**	**3,631**
4. Loans	**-**	**773,962**	**52,444**	**-**	**616,895**	**206,080**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	773,962	52,444	-	616,895	206,080
Total	75,844	1,080,887	115,108	73,658	962,018	240,899

The item includes financial instruments that under IFRS 9 do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income (unit in CIUs, insurance policies, postal savings bonds, debt securities and loans failing to pass the SPPI test, the latter including exposures to system funds)..

In particular, item 3, Units in collective investment undertakings decreased compared with the end of the previous year by a total of €38.4 million, mainly due to the sale of units in investment funds during the period, and, to a lesser extent, the effect of impairment losses.

The largest components of loans reported under 4.2 “other” include insurance policies underwritten by the banks of the Group in the amount of about €581 million and interest-bearing postal bonds of around €130 million.

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 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**7,489,151**	**16,522**	**3,590**	**7,661,292**	**43,761**	**26**
1.1 structured securities	48,795	104	-	30,449	850	-
1.2 other debt securities	7,440,356	16,419	3,590	7,630,843	42,910	26
2. Equity securities	**12,094**	**250,971**	**66,463**	**4,535**	**94,254**	**66,333**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**7,501,245**	**267,493**	**70,053**	**7,665,827**	**138,014**	**66,359**

The item “Debts securities” mainly includes government securities.

“Equity securities - Level 2” includes the equity investment in the Bank of Italy for a total of €225 million, an increase of €151 million compared with December 31, 2020, reflecting purchases during the period. The remainder of equity securities mainly includes non-controlling interests.

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	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		7,373,434	143,424	41	(2,211)	(5,413)	(12)	-
Loans		-	-	-	-	-	-	-
Total	**30/06/2021**	**7,373,434**	**143,424**	**41**	**(2,211)**	**(5,413)**	**(12)**	**-**
Total	**31/12/2020**	**7,514,561**	**199,238**	**41**	**(2,401)**	**(6,348)**	**(12)**	**-**

** Value to be reported for information purposes*

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

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/06/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**7,111,519**	**-**	**-**	**-**	**-**	**7,111,519**	**4,680,695**	**-**	**-**	**-**	**-**	**4,680,695**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	7,111,514	-	-	X	X	X	4,680,689	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	5	-	-	X	X	X	5	-	-	X	X	X
B. Due from banks	**2,477,957**	**263**	**-**	**771,852**	**183,369**	**1,569,667**	**2,534,790**	**413**	**-**	**395,328**	**393,605**	**2,082,794**
1. Financing	1,572,939	263	-	8,863	72,662	1,518,506	1,780,367	413	-	12,026	61,710	2,032,394
1.1 Current accounts and demand deposits	548,943	-	-	X	X	X	543,248	-	-	X	X	X
1.2. Fixed-term deposits	49,318	-	-	X	X	X	38,955	-	-	X	X	X
1.3. Other financing:	974,678	263	-	X	X	X	1,198,164	413	-	X	X	X
- Repurchase agreements	16,160	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	297	-	-	X	X	X	251	-	-	X	X	X
- Other	958,221	263	-	X	X	X	1,197,913	413	-	X	X	X
2. Debts securities	905,018	-	-	762,989	110,707	51,161	754,423	-	-	383,302	331,895	50,400
2.1 Structured securities	49,023	-	-	36,050	13,295	-	50,556	-	-	20,930	26,102	-
2.2 Other debt securities	855,995	-	-	726,939	97,412	51,161	703,867	-	-	362,372	305,793	50,400
Total	**9,589,476**	**263**	**-**	**771,852**	**183,369**	**8,681,186**	**7,215,485**	**413**	**-**	**395,328**	**393,605**	**6,763,489**

“Claims on central banks” total €7.1 billion (up from €4.7 billion at the end of the previous year) and include:

- the balance of the Group banks’ reserve requirement in the amount of €1 billion, of which €0.8 billion managed on behalf of the mutual banks by the Parent Company;
- the excess liquidity of the banks held on the reserve requirement account as a result of the monetary policy measures adopted by the European Central Bank (ECB), in the amount of €6 billion.

The sub-item “debt securities” comes to €0.9 billion, a slight increase on the end of 2020, and includes bank bonds held by the Group.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/06/2021						Total 31/12/2020					
	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	**84,206,696**	**3,529,349**	**16,757**	**-**	**617,480**	**93,862,995**	**83,537,820**	**3,739,993**	**23,002**	**-**	**2,865,487**	**92,721,086**
1.1. Current accounts	5,600,485	589,638	285	X	X	X	5,973,361	648,110	193	X	X	X
1.2. Repurchase agreements	643,403	-	-	X	X	X	1,813,263	-	-	X	X	X
1.3. Medium/long term loans	65,382,688	2,525,191	9,506	X	X	X	62,979,347	2,637,254	14,083	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wage	2,046,408	32,224	-	X	X	X	2,033,147	29,430	6	X	X	X
1.5. Finance leases	4,110,470	275,229	3,090	X	X	X	4,171,955	325,106	3,412	X	X	X
1.6. Factoring	367,129	25,886	-	X	X	X	468,208	14,820	-	X	X	X
1.7. Other loans	6,056,113	81,181	3,875	X	X	X	6,098,539	85,273	5,308	X	X	X
2. Debt securities	**59,035,820**	**782**	**-**	**56,598,639**	**1,749,560**	**155,843**	**56,687,946**	**1,400**	**-**	**56,075,948**	**2,036,691**	**207,069**
2.1. Structured securities	351,271	356	-	302,147	73,540	109,173	273,983	348	-	90,375	187,669	29,852
2.2. Other debt securities	58,684,549	426	-	56,296,492	1,676,020	46,670	56,413,963	1,052	-	55,985,573	1,849,022	177,217
Total	**143,242,516**	**3,530,131**	**16,757**	**56,598,639**	**2,367,040**	**94,018,838**	**140,225,766**	**3,741,393**	**23,002**	**56,075,948**	**4,902,178**	**92,928,155**

The item “Repurchase agreements” came to €0.6 billion, a decrease compared with December 2020, and reports amounts connected with transactions with the Clearing & Guarantee Fund.

Medium/long-term loans amounted to €67.9 billion, an increase on the end of 2020, and are mainly granted to households and non-financial companies.

“Debt securities” classified here came to €59 billion and include €56.9 of government securities, mainly Italian government securities. The increase in debt securities compared with December 2020 is attributable to an increase in exposures in securities (+€2.3 billion), mainly government securities, also reflecting an increase in drawings on TLTRO funding.

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

			Gross amount			Total writeoffs			Total and partial writeoffs *
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debts securities			59,299,608	746,696	1,635	(16,306)	(89,159)	(853)	-
Loans			83,313,982	10,401,948	8,284,899	(344,866)	(479,910)	(4,755,286)	(326,244)
	Total	**30/06/2021**	**142,613,590**	**11,148,644**	**8,286,534**	**(361,172)**	**(569,069)**	**(4,756,140)**	**(326,244)**
	Total	**31/12/2020**	**137,293,407**	**11,056,858**	**8,445,207**	**(301,933)**	**(607,082)**	**(4,703,401)**	**(326,845)**

** Value to be reported for information purposes*

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 30/06/2021			NV	FV 31/12/2020			NV
	L1	L2	L3	30/06/2021	L1	L2	L3	31/12/2020
A. Financial derivatives								
1. Fair value	20	3,797	-	125,991	633	9,367	-	437,655
2. Cash flows	-	257	-	50,000	-	1,877	-	74,128
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**20**	**4,054**	**-**	**175,991**	**633**	**11,243**	**-**	**511,783**

Key
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

	Total 30/06/2021	Total 31/12/2020
1. Positive adjustments	**136,861**	**222,506**
1.1 of specific portfolios:	136,861	222,506
a) financial assets measured at amortized cost	135,988	217,208
b) financial assets measured at fair value through comprehensive income	873	5,298
1.2 comprehensive	-	-
2. Negative adjustments	**(8,736)**	**(13)**
2.1 of specific portfolios:	(8,736)	(13)
a) financial assets measured at amortized cost	(8,736)	(13)
b) financial assets measured at fair value through comprehensive income	-	-
2.2 comprehensive	-	-
Total	**128,125**	**222,493**

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 SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	30.0%	30.0%
2, BCC Assicurazioni SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	30.0%	30.0%
3, Hi-Mtf SpA	Milan	Milan	Significant influence	Iccrea Banca SpA	25.0%	25.0%
4, Polo Verde Srl	Cremona	Cremona	Significant influence	Credito Padano Banca di Credito Cooperativo S.C.	25.0%	25.0%
5, Foro Annonario Gest Srl	Cesena	Cesena	Significant influence	Credito Cooperativo Romagnolo BCC di Cesena e Gatteo S.C.	25.0%	25.0%
6, Solaria Srl	Grosseto	Grosseto	Significant influence	Banca TEMA - Terre Etrusche e di Maremma S.C.	40.0%	40.0%
7, HBenchmark Srl	Altavilla Vicentina	Altavilla Vicentina	Significant influence	Iccrea Banca SpA	10.0%	10.0%

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 SpA	94,490	94,490	-
2, BCC Assicurazioni SpA	7,032	7,032	-

7.6 ASSESSMENTS AND SIGNIFICANT ASSUMPTIONS FOR ESTABLISHING THE EXISTENCE OF JOINT CONTROL OR SIGNIFICANT INFLUENCE

"Part A – Accounting Policies, "Section 3 – Scope and methods of consolidation" of the notes to the financial statements sets out the general criteria for the assessment and significant assumptions made in establishing whether or not we exercise joint control or significant influence over an investee company or another entity.

SECTION 9 – PROPERTY, PLANT AND EQUIPMENT – ITEM 90

9.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

		Total 30/06/2021	Total 31/12/2020
1. Owned assets		**1,769,874**	**1,781,675**
a) land		304,367	299,068
b) buildings		1,246,768	1,257,266
c) movables		57,543	58,820
d) electronic systems		80,515	81,912
e) other		80,680	84,609
2. Assets acquired under finance leases		**250,325**	**269,907**
a) land		487	5,111
b) buildings		236,231	249,408
c) movables		235	670
d) electronic systems		6,559	8,254
e) other		6,813	6,464
	Total	2,020,198	2,051,582

The rights of use acquired under leases for buildings are attributable almost entirely to the leases of properties used as branches and spaces used to host ATMs or offices.

9.2 INVESTMENT PROPERTY: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Owned assets	**142,412**	**-**	**1,248**	**154,391**	**143,762**	**-**	**2,557**	**147,866**
a) land	27,655	-	339	26,502	29,173	-	339	28,194
b) buildings	114,757	-	909	127,889	114,590	-	2,218	119,672
2. Right-of-use assets acquired under leases	**7,540**	**-**	**-**	**216**	**7,540**	**-**	**-**	**7,540**
a) land	-	-	-	-	-	-	-	-
b) buildings	7,540	-	-	216	7,540	-	-	7,540
Total	149,952	-	1,248	154,607	151,302	-	2,557	155,406

9.4 INVESTMENT PROPERTY: COMPOSITION OF ASSETS AT FAIR VALUE

		Total 30/06/2021			Total 31/12/2020		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets		**-**	**452,923**	**2,657**	**-**	**470,664**	**3,029**
a) land		-	-	797	-	-	909
b) buildings		-	452,923	1,860	-	470,664	2,120
2. Right-of-use assets acquired under leases		**-**	**-**	**-**	**-**	**-**	**-**
a) land		-	-	-	-	-	-
b) buildings		-	-	-	-	-	-
	Total	-	452,923	2,657	-	470,664	3,029

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

	Total 30/06/2021	Total 31/12/2020
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received	**48,620**	**52,288**
a) land	16,856	16,924
b) buildings	23,253	26,778
c) movables	-	-
d) electronic systems	-	-
e) other	8,511	8,586
2. Other inventories of property, plant and equipment	**17,383**	**3,030**
Total	66,003	55,318

SECTION 10 – INTANGIBLE ASSETS – ITEM 100

10.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2021		Total 31/12/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A,1 Goodwill	**X**	**23,022**	**X**	**23,030**
A.1.1 pertaining to the Group	X	23,022	X	23,030
A.1.2 pertaining to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**136,905**	**5**	**145,809**	**5**
A.2.1 Assets carried at cost	136,905	5	145,809	5
a) internally generated intangible assets	5,269	-	5,017	-
b) other assets	131,636	5	140,792	5
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	136,905	23,027	145,809	23,035

Item A.1.1 includes goodwill paid in the acquisition of bank branches by the Group banks (€7.5 million) and goodwill recognized upon first-time consolidation of certain controlling interests (€15.6 million) prior to the formation of the Mutual Banking Group.

Other intangible assets mainly comprise software and licenses and, to a lesser extent, intangible assets deriving from business combinations carried out by Group banks prior to formation of the Group.

10.3 OTHER INFORMATION

Testing goodwill for impairment

IAS 36 requires that certain types of asset, including goodwill, undergo impairment testing at least annually (in the case of the Iccrea Cooperative Banking Group and the main Italian banking groups, at the end of the calendar year) in order to verify the recoverability of their value.[29]

The standard also establishes that the annual detailed calculation can be considered valid for the purposes of subsequent assessments as long as the probability that the recoverable value of the assets is less than the carrying amount is considered remote. This judgment is essentially based on an analysis of events that have occurred and any circumstances that may have changed since the date of the most recent annual impairment test.

Specifically, IAS 36 requires the performance of certain qualitative and quantitative analyses in the preparation of the interim financial statements in order to identify the possible existence of impairment indicators ("internal" and "external") and consequently whether the conditions have been met for performing impairment tests more frequently than the ordinary annual testing.

In consideration of the foregoing, analyses were performed to verify the presence or absence, compared with the date of approval of the impairment test performed in the preparation of the consolidated financial statements at December 31, 2020, of indicators/events of either an external or internal nature (so-called trigger events) such as to give rise to the need to perform impairment testing for the interim financial report at June 30, 2021.

More specifically, in consideration of the above, the following external factors were analyzed:

- the evolution of the macroeconomic scenario and the forecasts of the banking sector for the medium term with respect to the assumptions underlying the projections considered in the impairment testing at December 31, 2020;
- the components of the discount rate compared between the situation prevailing at the time of the impairment testing exercise and the current situation;

as well as the following internal factors:

- a comparison of the preliminary data at June 30, 2021 and the expected profit forecasts in the 2021 budget for investee companies undergoing assessment.

The analysis performed found no evidence of impairment for the assets involved.

[29] In the financial statements at December 31, 2020, which readers are invited to consult for more information, impairment tests were conducted to assess the carrying amount of the goodwill recognized by the affiliated banks (€7.5 million) and the goodwill recognized in the consolidated financial statements following the acquisition of control over the investees (€15.6 million). In order to perform impairment testing of the goodwill recognized by the banks, the Group has adopted common criteria and methodological models, in line with best market and theoretical practice, to determine the value in use of the assets. Consistent with the provisions of IAS 36 and taking account of the general principles of reasonableness and demonstrability of the estimates to be used, two distinct approaches have been adopted within the Group (based on the use of a CGU represented, respectively, by the entire company or the branches that originally led to the recognition of goodwill). In the case of the "entire company CGU", the dividend discount model (DDM) - excess capital variant – has been applied. It estimates the value of a company (in this case, the affiliated mutual bank) on the basis of future dividends distributable to shareholders. This method is widely used in accepted valuation practice and supported by the best scholarly work on corporate valuation techniques, with particular regard to companies operating in the financial sector. Affiliates that adopt the "branches acquired CGU" use the discounted cash flow ("DCF") – levered variant. It estimates the value of the economic capital of a company ("equity value") as the sum of the present value of the cash flows distributable to shareholders that it will generate over a specified explicit period for planning projected economic/financial data and of the residual value at the end of that period ("TV"), discounted at a rate equal to the cost of capital ("Ke").

In the measurement of the goodwill recognized in the consolidated financial statements following the acquisition of control over the investee, the CGU is represented by each of these investees. The market multiples method was used to measure the companies, which is based on the assumption that the value of a company can be determined by drawing information from the stock exchange market for companies operating in the same sector of the company being valued ("comparable companies").

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

11.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/06/2021			31/12/2020		
1) Recognized in income statement:	**1,365,923**	**154,067**	**1,519,990**	**1,433,401**	**164,805**	**1,598,206**
a) DTAs pursuant to Law 214/2011	**1,076,968**	**112,851**	**1,189,819**	**1,116,478**	**119,579**	**1,236,057**
Writedowns of loans to customers	941,093	107,144	1,048,237	1,034,218	116,169	1,150,387
Goodwill and other intangible assets at December 31, 2014	408	74	482	440	80	520
Tax losses/negative value of production pursuant to Law 214/2011	135,467	5,550	141,100	81,819	3,330	85,149
b) Other	**288,955**	**41,216**	**330,174**	**316,924**	**45,226**	**362,150**
Writedowns of amounts due from banks	2,237	-	2,237	2,637	-	2,637
Writedowns of loans to customers	62,758	20,279	83,037	70,500	22,819	93,319
Goodwill and other intangible assets	5,633	1,121	6,754	6,028	1,199	7,228
Tax losses	38,199	-	38,199	43,297	-	43,297
Writedowns of financial instruments	602	402	1,004	859	451	1,311
Writedowns from impairment of guarantees issued recognized under liabilities	39,634	30	39,664	39,541	35	39,576
Provisions for risks and charges	81,293	10,644	91,937	92,022	11,762	103,784
Costs of predominantly administrative nature	1,615	6	1,622	1,595	7	1,602
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	30,089	4,953	35,042	30,212	4,974	35,187
Other	26,324	3,781	30,104	30,233	3,978	34,210
2) Recognized in shareholders' equity:	**18,189**	**2,903**	**21,088**	**27,141**	**4,452**	**31,592**
a) Valuation reserves	**5,776**	**1,262**	**7,038**	**3,813**	**878**	**4,692**
Capital losses on financial assets measured through OCI	5,776	1,262	7,038	3,813	878	4,692
b) Other:	**12,413**	**1,641**	**14,054**	**23,327**	**3,573**	**26,901**
Actuarial gains/losses on provisions for employees	3,381	24	3,405	4,128	25	4,153
Other	9,032	1,617	10,649	19,199	3,548	22,748
A. Total deferred tax assets	**1,384,112**	**156,970**	**1,541,082**	**1,460,542**	**169,257**	**1,629,799**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total item 110 b)	**1,384,112**	**156,970**	**1,541,082**	**1,460,542**	**169,257**	**1,629,799**

The DTAs referred to in Law 214/2011, equal to a total of nearly €1.2 billion, are mainly represented by prepaid taxes attributable to writedowns of loans to customers accounted for up to 2015 and not yet deducted, which can be converted into tax credits in the event of a net loss for the year and/or a tax loss. The DTAs referred to in Law 214/2011 on tax losses are generated by the reversal of writedowns of loans to customer and can be transformed into tax credits at the time tax returns are filed.

DTAs recognized in the income statement other than those referred to in Law 214/2011 amount to a total of €330.2 million. The sub-item "Provisions for risks and charges", which amounts to €91.9 million, represents the prepaid taxes recognized in respect of provisions for risks and charges that are expected to be deducted in future years. The sub-item "Writedowns of loans to customers", equal to €83 million, includes the deferred tax assets that can be recognized in respect of the nine-tenths of writedowns on loans to customers recognized at first-time adoption of IFRS 9, which under Law 145 of December 30, 2018 are deducted in tenths.

11.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/06/2021			31/12/2020		
1) Deferred tax liabilities recognized in income statement	**8,189**	**563**	**8,751**	**29,471**	**4,189**	**33,660**
Writedowns of loans to customers deducted in tax return	-	-	-	19	-	19
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	1,770	322	2,092	17,705	3,442	21,147
Other	6,418	240	6,659	11,747	747	12,494
2) Deferred tax liabilities recognized in shareholders' equity	**27,954**	**5,449**	**33,403**	**53,637**	**10,424**	**64,061**
Valuation reserves						
Capital gains on financial assets measured through OCI	25,534	5,070	30,604	36,845	7,287	44,132
Revaluation of property	53	11	64	15,310	3,029	18,339
Other	2,367	368	2,735	1,482	108	1,590
A. Total deferred tax liabilities	**36,142**	**6,012**	**42,154**	**83,108**	**14,613**	**97,721**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax liabilities	**36,142**	**6,012**	**42,154**	**83,108**	**14,613**	**97,721**

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

	30/06/2021	31/12/2020
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property, plant and equipment	17,040	18,368
of which obtained through enforcement of guarantees received	15,746	15,947
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**17,040**	**18,368**
of which carried at cost	15,188	17,358
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	1,852	1,010
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
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	-	-
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

	Total 30/06/2021	Total 31/12/2020
- Shortfalls, embezzlement and robberies	1,584	1,318
- Trade receivables	55,079	42,835
- Stamp duty and other valuables	1,674	1,269
- Gold, silver and other precious metals	2,342	2,254
- Receivables for future premiums on derivatives	8,689	9,901
- Fees and commissions and interest to be received	10,655	13,265
- Tax receivables due from central govt. tax authorities and other tax agencies	619,732	365,443
- Receivables from social security institutions	4,770	4,660
- Tax receivables	10,627	12,810
- Receivables from employees	5,624	5,594
- Non-recurring transactions (acquisitions)	4,825	11,252
- Items in transit between branches and items being processed	741,975	272,787
- Accrued income not attributable to separate line item	32,443	21,222
- Prepaid expenses not attributable to separate line item	83,083	33,126
- Leasehold improvements	39,681	42,082
- Other (security deposits, assets not attributable to other items)	547,442	559,990
- Consolidation adjustments	356,552	533,448
Total	2,526,777	1,933,255

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 30/06/2021				Total 31/12/2020			
	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	**32,843,861**	X	X	X	**29,923,224**	X	X	X
2. Due to banks	**1,824,985**	X	X	X	**2,191,073**	X	X	X
2.1 Current accounts and demand deposits	235,857	X	X	X	299,339	X	X	X
2.2 Fixed term deposits	124,985	X	X	X	116,154	X	X	X
2.3 Loans	1,339,141	X	X	X	1,648,035	X	X	X
2.3.1 Repurchase agreements	1,237,992	X	X	X	1,534,792	X	X	X
2.3.2 Other	101,149	X	X	X	113,243	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	3,437	X	X	X	1,522	X	X	X
2.6 Other payables	121,565	X	X	X	126,023	X	X	X
Total	**34,668,846**	**-**	**22,638,616**	**12,002,892**	**32,114,297**	**-**	**20,472,027**	**11,837,754**

"Due to central banks", up €2.9 billion compared with December 2020, mainly represents financing from the ECB (TLTROs), in response to the more expansionary monetary policy stance of the ECB (in particular the expansion of access to TLTRO III operations) to counter the adverse effects of the COVID-19 health emergency on the economy. This financing falls due between December 2022 and March 2024,

The decrease in the item "Due to banks" mainly reflects a decrease of €0.3 billion in repurchase transactions entered into by Group banks.

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

	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	96,914,980	X	X	X	92,228,718	X	X	X
2. Fixed-term deposits	5,829,834	X	X	X	5,748,454	X	X	X
3. Loans	6,455,815	X	X	X	8,899,331	X	X	X
3.1 Repurchase agreements	5,329,905	X	X	X	6,821,435	X	X	X
3.2 Other	1,125,910	X	X	X	2,077,896	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X		X	-	X	X	X
5. Lease liabilities	250,776	X	X	X	262,303	X	X	X
6. Other payables	1,359,626	X	X	X	1,257,891	X	X	X
Total	**110,811,031**	**4,651**	**4,349,751**	**106,124,361**	**108,396,697**	**3,593**	**6,938,328**	**101,451,848**

Amounts due to customers increased by €2.4 billion compared with December 2020, mainly reflecting the increase in balances on current accounts and demand deposits.

The sub-item “Repurchase agreements” is mainly composed of transactions with the Clearing and Guarantee Fund in the amount of €5.3 billion, a decrease of about €1.5 billion compared with December 2020.

The sub-item “Loans-other” comprises €0.5 billion in respect of loans from CDP.

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

	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	6,766,420	2,891,047	3,950,628	-	8,308,713	3,363,710	5,035,741	-
1.1 structured	4,835	-	4,835	-	4,875	-	4,875	-
1.2 other	6,761,585	2,891,047	3,945,794	-	8,303,838	3,363,710	5,030,867	-
2. Other securities	5,209,089	-	239,447	5,067,682	5,409,783	-	325,322	5,161,485
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	5,209,089	-	239,447	5,067,682	5,409,783	-	325,322	5,161,485
Total	**11,975,509**	**2,891,047**	**4,190,075**	**5,067,682**	**13,718,495**	**3,363,710**	**5,361,064**	**5,161,485**

Bond issues amounted to €6.8 billion, a decrease of about €1.5 billion compared with December 2020, which reflected securities maturing during the period.

“Other securities – other” include certificates of deposit issued by Group banks.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	18,387	18,120	559	-	18,679	133	153	-	-	153
2. Due to customers	5,563	5,702	-	-	5,702	125	120	-	-	120
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**23,950**	**23,822**	**559**	**-**	**24,381**	**258**	**273**	**-**	**-**	**273**
B. Derivatives										
1. Financial derivatives	X	245	181,685	618	X	X	150	242,649	736	X
1.1 Trading	X	245	181,685	-	X	X	150	242,649	-	X
1.2 Associated with fair value option	X	-	-	618	X	X	-	-	736	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**245**	**181,685**	**618**	**X**	**X**	**150**	**242,649**	**736**	**X**
Total (A+B)	**X**	**24,067**	**182,244**	**618**	**X**	**X**	**423**	**242,649**	**736**	**X**

Key:
NV=nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The sub-item 1.1 “Financial derivatives – trading” includes the negative value of trading derivatives entered into almost entirely by the Parent Company.

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

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

	Total 30/06/2021					Total 31/12/2020				
	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	**654**	**551**	**125**	**-**	**542**	**3,026**	**2,868**	**249**	**-**	**2,849**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	654	551	125	-	X	3,026	2,868	249	-	X
Total	**654**	**551**	**125**	**-**	**542**	**3,026**	**2,868**	**249**	**-**	**2,849**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
* Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The sub-item 3.2 “Debt securities – Other” includes bonds issued by a number of affiliated banks hedged with interest rate derivatives measured in accordance with the fair value option pursuant to IFRS 9. The decrease compared with the previous year is mainly attributable to the maturity of a number of bonds issued.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value 30/06/2021			NV	Fair value 31/12/2020			NV
	L1	L2	L3	30/06/2021	L1	L2	L3	31/12/2020
A) Financial derivatives	**236**	**364,332**	**-**	**11,627,564**	**93**	**514,650**	**-**	**8,968,599**
1) Fair value	236	343,281	-	11,093,219	93	469,649	-	7,615,797
2) Cash flows	-	21,051	-	534,346	-	45,001	-	1,352,801
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**236**	**364,332**	**-**	**11,627,564**	**93**	**514,650**	**-**	**8,968,599**

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

SECTION 5 - VALUE ADJUSTMENTS OF GENERICALLY HEDGED LIABILITIES - ITEM 50

5.1 VALUE ADJUSTMENTS OF HEDGED FINANCIAL LIABILITIES

	Total 30/06/2021	Total 31/12/2020
1. Positive adjustment of financial liabilities	-	-
2. Negative adjustment of financial liabilities	922	1,672
Total	**922**	**1,672**

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 11 under assets.

SECTION 8 - OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/06/2021	Total 31/12/2020
Amounts due to social security institutions and State	87,554	103,876
Trade payables	165,439	170,020
Securities to be settled	1,099	1,632
Amounts available to customers	805,998	646,097
Non-recurring transactions (acquisitions)	172	1,161
Liabilities for future premiums on derivatives	11,903	13,455
Tax payables due to tax authorities	477,889	359,559
Payables due to employees	224,876	175,042
Financial liabilities in respect of loans granted for a specific transaction	3,914	14,412
Guarantees issued and credit derivatives	10	10
Accrued expenses not attributable to separate line item	46,379	8,009
Deferred income not attributable to separate line item	26,643	18,242
Items in transit and items being processed	396,051	476,857
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	634,044	489,555
Balance of illiquid portfolio items	2,171,775	539,957
Dividends to be paid	186	177
Tax consolidation mechanism	-	11
Total	**5,053,933**	**3,018,072**

SECTION 9 - EMPLOYEE TERMINATION BENEFITS – ITEM 90

9.1 EMPLOYEE TERMINATION BENEFITS: CHANGE FOR THE PERIOD

		Total 30/06/2021	Total 31/12/2020
A. Opening balance		**295,178**	**306,254**
B. Increases		**4,535**	**12,776**
B.1 Provisions for the period		1,686	7,824
B.2 Other increases		2,849	4,952
C. Decreases		**23,907**	**23,852**
C.1 Benefit payments		14,867	19,908
C.2 Other decreases		9,040	3,944
D. Closing balance		**275,806**	**295,178**
	Total	**275,806**	**295,178**

The table reports changes in the provision for termination benefits under the Italian severance pay mechanism (*trattamento di fine rapporto*, TFR) in the period. It does not report payments to external pension funds and the INPS treasury fund, which are presented in Section 8 "Other liabilities".

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

		Total 30/06/2021	Total 31/12/2020
1. Provisions for credit risk in respect of commitments and financial guarantees issued		243,942	232,346
2. Provisions for other commitments and guarantees issued		-	-
3. Company pension plans		-	-
4. Other provisions for risks and charges		249,637	295,761
4.1 legal disputes		91,174	93,651
4.2 personnel expense		58,212	70,769
4.3 other		100,252	131,340
	Total	**493,579**	**528,106**

Item 1. "Provisions for credit risk in respect of commitments and financial guarantees issued" includes provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued that are subject to the impairment rules of IFRS 9,

The sub-item 4.1 "legal disputes" mainly includes provisions for disputes over interest, compound interest, contract terms and banking and investment services, as well as provisions for labor disputes and legal costs for debt collection.

The main provisions recognized under sub-item 4.2 "personnel expenses" include that for the employee loyalty bonus.

The reduction in other provisions under sub-item 4.3 essentially reflects the use of the provision in connection with the contribution to the Deposit Guarantee Fund, which was allocated at the end of the previous year pending the decision of the European Commission in response to the petition to reduce the target level of the resources of the DGF for mutual banks from 0.8% of guaranteed deposits to 0.5%, equal to about €35 million.

SECTION 13 - SHAREHOLDERS' EQUITY - ITEMS 120, 130, 140, 150, 160, 170 AND 180

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

As described in Part A Accounting Policies, Section 3 – Scope and methods of consolidation, pursuant to Law 145 of December 30, 2018 ("2019 Budget Act") the Parent Company, Iccrea Banca SpA, and the affiliated mutual banks under the Cohesion Contract represent a single consolidating entity. In the Group's shareholders' equity, share capital is therefore represented by the share capital of the Parent Company and that of the mutual banks. The intercompany portion, represented by shares of the Parent Company held by the mutual banks belonging to the Group under the provisions of the Cohesion Contract, is reported under treasury shares, as the shares were issued and subscribed by the single consolidating entity.

As at the reporting date, share capital was represented by 27,125,759 ordinary shares with a par value of €51.65 each, for a total of €1,401,045,452.

As at the reporting date, share capital of the mutual banks belonging to the Iccrea Cooperative Banking Group amounted to €952,421,870 (€904,221,870 net of shares issued pursuant to Article 150-ter of the Consolidated Banking Act by two mutual banks and subscribed by the Parent Company). In accordance with the bylaws of the mutual banks, their share capital is variable as it is composed of shares that in principle can be issued without limit.

13.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	(24,154,240)	-
A.2 Shares in circulation: opening balance	**2,971,519**	-
B. Increases	**-**	-
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**(33,053)**	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	(33,053)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**2,938,466**	-
D.1 Treasury shares(+)	24,187,293	-
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 €2,305,267,312 is represented only by ordinary shares (subscribed share capital, fully paid up).

13.4 EARNINGS RESERVES: OTHER INFORMATION

Group reserves amount to a total €8.7 billion.

In particular, earning reserves amount to €8.7 billion and include, among the largest, the legal reserve in the amount of €10.4 billion as well as a negative IFRS 9 reserve of €1.6 billion.

13.5 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The item amounts to €30 million and is represented by six Additional Tier 1 bonds issued by the mutual banks between 2016 and 2018. No new bond issues were carried out during the year.

SECTION 14 - NON-CONTROLLING INTERESTS – ITEM 190

14.1 BREAKDOWN OF ITEM 190 “NON-CONTROLLING INTERESTS”

	30/06/2021	31/12/2020
Equity investments in consolidated companies with significant non-controlling interests		
1, Banca Mediocredito del F.V.G. SpA	41,085	39,537
2, Coopersystem Società Cooperativa	23,328	19,070
3, BCC Risparmio&Previdenza SGRpA	-	8,441
Other investments	954	4,469
Total	**65,367**	**71,517**

NON-CONTROLLING INTERESTS: COMPOSITION

	30/06/2021	31/12/2020
1. Share capital	58,820	64,570
2. Share premium reserve	3,999	4,338
3. Reserves	(2,568)	(4,351)
4. Treasury shares	-	-
5. Valuation reserves	433	433
6. Equity instruments	-	-
7. Gain (loss) pertaining to non-controlling interests	4,683	6,527
Total	**65,367**	**71,517**

14.2 EQUITY INSTRUMENTS: COMPOSITION AND CHANGE FOR THE PERIOD

The consolidated capital of the Iccrea Cooperative Banking Group does not include equity instruments issued by Group companies that are not wholly owned.

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 - INTEREST -ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/06/2021	Total 30/06/2020
1. Financial assets measured at fair value through profit or loss	**5,155**	**978**	**-**	**6,133**	**7,407**
1.1 Financial assets held for trading	938	-	-	938	649
1.2 Financial assets designated at fair value	1,162	50	-	1,212	1,468
1.3 Other financial assets mandatorily at fair value	3,055	928	-	3,983	5,289
2. Financial assets measured at fair value through other comprehensive income	**23,820**	**-**	**X**	**23,820**	**26,329**
3. Financial assets measured at amortized cost	**341,403**	**1,121,148**	**X**	**1,462,551**	**1,361,887**
3.1 Due from banks	7,494	1,555	X	9,049	14,141
3.2 Loans to customers	333,909	1,119,593	X	1,453,502	1,347,746
4. Hedging derivatives	**X**	**X**	**(105,633)**	**(105,633)**	**(18,126)**
5. Other assets	**X**	**X**	**2,128**	**2,128**	**1,226**
6. Financial liabilities	**X**	**X**	**X**	**185,363**	**80,677**
Total	**370,378**	**1,122,126**	**(103,505)**	**1,574,362**	**1,459,401**
of which: interest income on impaired financial assets	10	92,388	-	92,398	112,508
of which: interest income on finance leases	-	67,911	-	67,911	70,100

Interest on loans to customers include interest income in respect of loans to customers of €1.1 billion (broadly in line with the balance for the corresponding period of 2020), mainly on loans to households and non-financial companies.

Interest income on debt securities came to €370.4 million. The item mainly includes interest on securities issued by government entities and increased from the €220.2 million posted at June 30, 2020, reflecting an increase in the portfolio of securities connected with the TLTRO.

“Hedging derivatives” include differences on hedging derivatives adjusting interest income on the hedged financial instruments.

The item “Financial liabilities” includes interest on funding operations at negative interest rates. In particular, the increase compared with the balance of the previous year reflected the additional monetary policy measures adopted by the ECB to mitigate the effects of the pandemic (the “special period”), as discussed in greater detail in the report on operations and in part A of these notes.

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2021	Total 30/06/2020
1. Financial liabilities measured at amortized cost	**(97,793)**	**(87,730)**	**X**	**(185,522)**	**(221,640)**
1.1 Due to central banks	(246)	X	X	(246)	(335)
1.2 Due to banks	(3,966)	X	X	(3,966)	(3,414)
1.3 Due to customers	(93,580)	X	X	(93,580)	(108,291)
1.4 Securities issued	X	(87,730)	X	(87,730)	(109,601)
2. Financial liabilities held for trading	**-**	**-**	**(86)**	**(86)**	**(239)**
3. Financial liabilities designated at fair value	**-**	**(47)**	**-**	**(47)**	**(199)**
4. Other liabilities and provisions	**X**	**X**	**(762)**	**(762)**	**(764)**
5. Hedging derivatives	**X**	**X**	**1,169**	**1,169**	**797**
6. Financial assets	**X**	**X**	**X**	**(20,651)**	**(26,389)**
Total	**(97,792)**	**(87,777)**	**321**	**(205,899)**	**(248,434)**
of which: interest expense on finance leases	(4,334)	-	(1)	(4,334)	(4,185)

The item 1.4 “Securities issued” regards interest expense accrued in the period on bonds and certificates of deposit measured at amortized cost.

The item 6. “Financial assets” includes interest on investment transactions at negative interest rates.

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
a) guarantees issued	12,200	12,347
c) management, intermediation and advisory services:	183,985	162,395
1. Trading in financial instruments	2,126	1,480
2. foreign exchange	2,738	3,720
3. asset management	41,322	31,354
3.1 individual	11,525	6,946
3.2 collective	29,797	24,407
4. securities custody and administration	4,358	4,615
6. securities placement	12,397	14,799
7. order collection and transmission	8,296	10,562
8. advisory services	1,924	1,575
8.1 concerning investments	1,532	1,125
8.2 concerning financial structure	392	450
9. distribution of third-party services	110,824	94,293
9.1. asset management	2,974	3,648
9.1.1. individual	2,888	3,580
9.1.2. collective	86	67
9.2. insurance products	53,138	42,910
9.3. other	54,712	47,735
d) collection and payment services	101,574	97,374
e) servicing activities for securitizations	1,019	1,268
f) services for factoring operations	2,094	1,711
i) holding and management of current accounts	250,190	232,122
j) other services	170,310	157,560
Total	721,372	664,777

The composition of fee and commission income reflects the operations of the Group's mutual banks, which are typically composed of customer current accounts (€250.2 million), collection and payment services (€101.6 million), distribution of third-party products and services (€110.8 million, including insurance products for €53.1 million), portfolio management (€41.3 million) securities placement (€12.4 million). The upturn in fees and commissions compared with the first half od 2020 reflected the general recovery of the Italian economy compared with the lockdown period last year.

Fees and commissions concerning sub-item C.3 "asset management" regard asset management activities, which are primarily performed by the Group asset management company.

"Other services" includes €123.2 million in fees related to the electronic money sector of the Parent Company. The main components that cannot be allocated to another specific account include fees and commission on lending operations, home banking services and treasury management services.

2.2 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
a) guarantees received	(527)	(925)
c) management and intermediation services:	(5,921)	(5,575)
1. trading in financial instruments	(909)	(1,093)
2. foreign exchange	(235)	(299)
3. asset management:	(1,926)	(1,970)
3.1 own portfolio	(1,764)	(1,872)
3.2 third-party portfolio	(162)	(97)
4. securities custody and administration	(2,812)	(2,096)
5. placement of financial instruments	(39)	(117)
d) collection and payment services	(6,312)	(7,272)
e) other services	(52,341)	(46,824)
Total	**(65,101)**	**(60,596)**

"Other services" includes €43.7 million in fees and commissions from the electronic money segment of the Parent Company.

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2021		Total 30/06/2020	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	42	-	52	9
B. Other financial assets mandatorily measured at fair value	1,136	327	403	2,240
C. Financial assets measured at fair value through other comprehensive income	10,093	181	2,240	-
D. Equity investments	282	-	23	-
Total	**11,553**	**508**	**2,718**	**2,250**

The main components of this item include dividends received on the interest held in the Bank of Italy in the amount of €9.2 million, classified under financial assets measured at fair value through other comprehensive income.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 NET GAIN (LOSS) ON TRADING ACTIVITIES: COMPOSITION

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses	Net gain (loss) (A+B) – (C+D)
1. Financial assets held for trading	**369**	**15,775**	**(512)**	**(8,233)**	**7,398**
1.1 Debt securities	223	9,870	(201)	(5,651)	4,241
1.2 Equity securities	11	417	(126)	(79)	222
1.3 Units in collective investment undertakings	135	165	(185)	(35)	80
1.4 Loans	-	-	-	-	-
1.5 Other	-	5,323	-	(2,468)	2,855
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**	**(62,350)**
4. Derivatives	**46,132**	**19,268**	**(23,903)**	**(38,646)**	**67,635**
4.1 Financial derivatives:	46,132	19,268	(23,903)	(38,646)	67,635
- on debt securities and interest rates	45,415	19,258	(23,668)	(38,055)	2,950
- on equity securities and equity indices	718	10	(235)	(591)	(98)
- on foreign currencies and gold	X	X	X	X	64,783
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**46,501**	**35,043**	**(24,415)**	**(46,879)**	**12,683**

The net gain/(loss) on “Financial assets and liabilities: foreign exchange differences” reports the balance of changes in the value of financial assets and liabilities denominated in foreign currencies, regardless of the accounting portfolio in which they are recognized, which correlate with the amount reported under “Financial derivatives on foreign currencies and gold”.

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

5.1 NET GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
A. Gain on:		
A.1 Fair value hedges	211,654	26,047
A.2 Hedged financial assets (fair value)	40,272	158,172
A.3 Hedged financial liabilities (fair value)	5,272	1,060
A.4 Cash flow hedges	738	144
A.5 Assets and liabilities in foreign currencies	295	455
Total income on hedging activities (A)	**258,231**	**185,878**
B. Loss on:		
B.1 Fair value hedges	(65,752)	(158,751)
B.2 Hedged financial assets (fair value)	(185,646)	(28,090)
B.3 Hedged financial liabilities (fair value)	(285)	(206)
B.4 Cash flow hedges	-	(146)
B.5 Assets and liabilities in foreign currencies	(875)	(853)
Total expense on hedging activities (B)	**(252,558)**	**(188,045)**
C. Net gain (loss) on hedging activities (A - B)	**5,673**	**(2,167)**
of which: net gain (loss) of hedges of net positions	-	-

As indicated in Part A “Accounting policies” of these notes to the financial statements, for the purposes of accounting for the results of hedging, the Group has exercised the option provided for in paragraph 7.2.21 of IFRS 9 to continue applying the provisions on hedge accounting envisaged by IAS 39.

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/06/2021			Total 30/06/2020		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	272,131	(33,598)	238,533	174,689	(8,562)	166,127
1.1 Due from banks	1,730	(105)	1,625	327	(41)	286
1.2 Loans to customers	270,401	(33,493)	236,908	174,361	(8,521)	165,840
2. Financial assets measured at fair value through other comprehensive income	56,458	(7,904)	48,554	64,227	(11,593)	52,634
2.1 Debt securities	56,458	(7,904)	48,554	64,227	(11,593)	52,634
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**328,589**	**(41,502)**	**287,087**	**238,915**	**(20,155)**	**218,760**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	385	(599)	(214)	860	(581)	278
Total liabilities (B)	**385**	**(599)**	**(214)**	**860**	**(581)**	**278**

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

The gain (loss) on disposal amounts to about €286.9 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 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	**56**	**69**	**(2,985)**	**(78)**	**(2,938)**
1.1 Debt securities	55	69	(2,820)	(78)	(2,774)
1.2 Loans	1	-	(165)	-	(164)
2. Financial liabilities	**11**	**26**	**(1)**	**-**	**36**
2.1 Securities issued	11	26	(1)	-	36
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**67**	**95**	**(2,986)**	**(78)**	**(2,902)**

The net gain for the item includes €2.8 million in respect of securities in which the liquidity of the Guarantee Scheme is invested.

7.2 NET ADJUSTMENTS OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: COMPOSITION OF OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

	Capital gains (A)	Profits on realization (B)	Capital losses (C)	Losses on realization (D)	Net gain (loss) [(A+B) - (C+D)]
1. Financial assets	**19,309**	**6,040**	**(16,384)**	**(835)**	**8,130**
1.1 Debt securities	1,119	157	(2,019)	(30)	(773)
1.2 Equity securities	6,730	2,585	(2,037)	(399)	6,879
1.3 Units in collective investment undertakings	5,749	3,282	(6,371)	(333)	2,327
1.4 Loans	5,711	16	(5,957)	(73)	(303)
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**18**
Total	**19,309**	**6,040**	**(16,384)**	**(835)**	**8,148**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	30/06/2021	30/06/2020
A. Due from banks	**(2,786)**	**-**	**(156)**	**5,775**	**1**	**2,834**	**(10,536)**
- loans	(645)	-	(156)	4,771	1	3,971	(7,386)
- debt securities	(2,141)	-	-	1,004	-	(1,137)	(3,150)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(328,167)**	**(43,843)**	**(735,730)**	**313,705**	**402,934**	**(391,101)**	**(367,277)**
- loans	(317,389)	(43,843)	(735,622)	311,369	402,934	(382,551)	(348,188)
- debt securities	(10,778)	-	(108)	2,336	-	(8,550)	(19,089)
of which: receivables purchased or originated credit-impaired	(6)	-	(350)	15	594	254	(14)
Total	**(330,953)**	**(43,843)**	**(735,886)**	**319,480**	**402,935**	**(388,267)**	**(377,813)**

The value adjustments reported in the “Stage 1 and 2” column regard collective writedowns on performing loans.

The value adjustments in the “Stage 3 - Other” column regard analytical writedowns of impaired past-due loans and those classified as unlikely to pay and bad loans, while those reported in the “Stage 3 - Writeoffs” column reflect extinguishing events, with the losses recognized following the definitive derecognition of the financial instruments.

Compared with the corresponnnnding period of the previous year, net losses for credit risk in respect of loans to customers increased by €34 million. For a discussion of the adjustments to the impairment model adopted by the Group in response to COVID-19 beginning last year, please see the information provided in the consolidated report on operations.

8.2 NET LOSSES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Losses (1)			Recoveries (2)		Total	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	30/06/2021	30/06/2020
A. Debt securities	(2,363)	-	-	834	1	(1,528)	(9,681)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(2,363)**	**-**	**-**	**834**	**1**	**(1,528)**	**(9,681)**

SECTION 9 - GAINS (LOSSES) FROM CONTRACT MODIFICATIONS WITHOUT DERECOGNITION – ITEM 140

9.1 GAINS (LOSSES) FROM CONTRACT MODIFICATIONS: COMPOSITION

The item, a negative €0.9 million (-€2 million at June 30, 2020), includes the impact of modifications of medium/long-term loan contracts with customers that, in compliance with IFRS 9, do not produce the derecognition of the assets but rather involve the recognition in profit or loss of the changes in the contractual cash flows.

The amounts do not include the impact of contract modifications on expected losses, which is recognized under item 130 – Net losses/recoveries for credit risk

SECTION 12 - ADMINISTRATIVE EXPENSES – ITEM 190

12.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
1) Employees	(821,167)	(803,404)
a) wages and salaries	(571,725)	(557,695)
b) social security contributions	(141,654)	(138,466)
c) termination benefits	(19,333)	(20,806)
d) pension expenditure	(242)	(255)
e) allocation to employee termination benefit provision	(3,906)	(5,150)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
g) payments to external pension funds:	(38,077)	(36,381)
- defined contribution	(37,972)	(36,282)
- defined benefit	(105)	(98)
h) costs from share-based payment plans	-	-
i) other employee benefits	(46,229)	(44,651)
2) Other personnel	(7,483)	(6,252)
3) Board of Directors and members of Board of Auditors	(25,028)	(24,035)
4) Retired personnel	-	-
Total	**(853,678)**	**(833,691)**

The increase in personnel expenses compared with the first half of the previous year is attributable to an increase in the staff of the Cooperative Banking Group and, to a lesser extent, to the increase in the variable component linked to the improvement in operations and the resumption of overtime work and business travel, which the previous year had been halted during the prolonged lockdown.

12.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
Information technology	(102,747)	(101,055)
Property and movables	(43,091)	(43,251)
- rental and fees	(6,150)	(7,502)
- ordinary maintenance	(32,314)	(30,702)
- security	(4,627)	(5,047)
Goods and services	(82,390)	(85,897)
- telephone and data transmission	(32,723)	(32,872)
- postal	(12,581)	(14,875)
- asset transport and counting	(8,897)	(8,539)
- electricity, heating and water	(16,473)	(16,064)
- transportation and travel	(5,053)	(5,339)
- office supplies and printed materials	(5,317)	(6,778)
- subscriptions, magazines and newspapers	(1,346)	(1,431)
Professional services	(82,169)	(76,946)
- professional fees (other than audit fees)	(33,503)	(27,426)
- audit fees	(2,780)	(1,932)
- legal and notary costs	(28,347)	(31,009)
- court costs, information and title searches	(17,539)	(16,578)
Administrative services	(36,555)	(23,177)
Insurance	(12,716)	(11,386)
Promotional, advertising and entertainment expenses	(14,668)	(15,443)
Association dues	(13,966)	(15,872)
Donations	(1,584)	(4,152)
Other	(31,108)	(30,157)
Indirect taxes and duties	(272,132)	(231,290)
Total	**(693,126)**	**(638,627)**

Other administrative expenses totaled €693.1 million, up by €54.5 million compared with the corresponding period of the previous year, mainly reflecting the charges connected with the ordinary contribution to the Deposit Guarantee Fund for mutual banks, which in the first half of 2021 were entirely accounted for in this item. In the first half of the previous year, part of these charges (€35 million) were recognized in the provisions for risks pending the decision by the European Commission regarding the petition presented through the industry association for a reduction in the target level of the resources of the DGF for mutual banks from 0.8% of guaranteed deposits to 0.5%.

Indirect taxes and duties include, among other things, the contribution to the Single Resolution Fund (BRRD) totalling €50.4 million, the contribution to the National Resolution Fund for bank crises of €18.4 million and the contribution to the Deposit Guarantee Fund for €71.9 million.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 200

This section provides details of the provisions and write-backs relating to the following categories of provisions for risks and charges:

- provisions for credit risk in respect of commitments to disburse funds and financial guarantees issued falling within the scope of IFRS 9;
- provisions for other commitments and guarantees not falling within the scope of IFRS 9;
- other provisions for risks and charges.

13.1 PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	30/06/2021		
	Provisions	Reversals	Total
Commitments to disburse funds Stage 1	(19,774)	10,083	(9,691)
Commitments to disburse funds Stage 2	(11,469)	7,161	(4,308)
Commitments to disburse funds Stage 3	(7,870)	10,372	2,502
Financial guarantees issued Stage 1	(11,952)	5,772	(6,180)
Financial guarantees issued Stage 2	(12,947)	10,069	(2,878)
Financial guarantees issued Stage 3	(10,261)	19,022	8,761
Total	**(74,273)**	**62,480**	**(11,794)**

The item includes net provisions in respect of commitments to disburse funds assumed by the Group banks in respect of the Deposit Guarantee Fund (DGF) and the Temporary Fund.

13.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/06/2021		
	Provisions	Reversals	Total
Legal disputes	(10,866)	5,248	(5,617)
Other	(4,598)	3,068	(1,530)
Total	**(15,463)**	**8,316**	**(7,147)**

The decline in the item compared with June 30, 2020 is mainly attributable to the circumstances discussed earlier concerning the contribution to the Deposit Guarantee Fund (DGF).

SEZIONE SECTION 14 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 210

14.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(89,310)	(385)	-	(89,695)
- Owned	(59,528)	(385)	-	(59,913)
- Right-of-use assets in respect of leases	(29,782)	-	-	(29,782)
A.2 Investment property	(1,591)	(470)	-	(2,061)
- Owned	(1,591)	(470)	-	(2,061)
- Right-of-use assets in respect of leases	-	-	-	-
A.3 Inventories	X	(100)	-	(100)
B. Assets held for sale	**X**	**(175)**	**-**	**(175)**
Total	**(90,902)**	**(1,129)**	**-**	**(92,031)**

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	(19,683)	-	-	(19,683)
- generated internally by the Bank	(633)	-	-	(633)
- other	(19,050)	-	-	(19,050)
A.2 Acquired under finance leases	-	-	-	-
Total	**(19,683)**	**-**	**-**	**(19,683)**

SECTION 16 - OTHER OPERATING EXPENSES/INCOME - ITEM 230

16.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	(13,924)	(14,849)
Reductions in assets and prior-year expenses not attributable to separate line item	(6,708)	(5,485)
Costs of outsourced services	(21)	(19)
Settlement of disputes and claims	(1,138)	(785)
Amortization of expenditure for leasehold improvements	(5,069)	(5,480)
Other charges – extraordinary transactions	-	(204)
Other expenses	(6,695)	(8,154)
Total	**(33,555)**	**(34,977)**

16.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
A) Cost recovery	**133,336**	**142,529**
Recovery of taxes	105,401	100,895
Recovery of sundry charges	10,820	20,401
Insurance premiums	987	2,602
Property rental income	-	7
Recovery of costs from customers	5,189	5,776
Recovery of costs on bad loans	10,939	12,847
B) Other income	**57,506**	**58,260**
Insourcing revenues	1,240	4,530
Property rental income	1,743	1,794
Reductions in liabilities and prior-year income not attributable to separate line item	11,202	7,401
Other income from finance leases	7,964	6,602
Other income	29,409	27,120
Accelerated processing fees	4,943	10,701
Consolidation adjustments	1,005	112
Total	**190,842**	**200,789**

The recovery of taxes and duties (stamp duty and tax in lieu), totaling €105.4 million, mainly regard current accounts, credit cards, savings passbooks and certificates of deposit.

SECTION 17 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
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	20,475	1,212
1. Revaluations	6,284	1,212
2. Gains on disposals	14,191	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	-	(1,019)
1. Writedowns	-	(1,019)
2. Impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit (loss)	20,475	193
Total	20,475	193

The item reports the financial impact of the equity measurement of investments in associates, as well as the gains on the disposal of the holding in Satispay.

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

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

	Revalutations	Writedowns	Exchange rate differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Property, plant and equipment	**-**	**(7,915)**	**-**	**-**	**(7,915)**
A.1 Operating assets:	-	-	-	-	-
- Owned	-	-	-	-	-
- Acquired under finance leases	-	-	-	-	-
A.2 Investment property:	-	(7,915)	-	-	(7,915)
- Owned	-	(7,915)	-	-	(7,915)
- Acquired under finance leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
- Internally generated	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Acquired under finance leases	-	-	-	-	-
Total	-	(7,915)	-	-	(7,915)

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 30/06/2021	Total 30/06/2020
A. Property	(128)	(49)
- Gains on disposal	522	104
- Losses on disposal	(650)	(153)
B. Other assets	183	(261)
- Gains on disposal	397	110
- Losses on disposal	(214)	(371)
Net gain (loss)	**55**	**(310)**

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

21.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
1. Current taxes (-)	(41,306)	(25,594)
2. Change in current taxes from previous period (+/-)	(2,266)	3,326
3. Reduction of current taxes for the period (+)	14,157	4,009
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	7,738	3,647
4. Change in deferred tax assets (+/-)	(65,202)	(33,496)
5. Change in deferred tax liabilities (+/-)	42,814	(346)
6. 6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(44,065)**	**(48,455)**

The tax item benefited from the effects of adjusting the tax values of property, plant and equipment and intangible assets referred to in Article 110, paragraphs 8 and 8-bis, of Decree Law 104 of August 14, 2020 (ratified with amendments by Law 126/2020) to the higher carrying amounts reported in the financial statements. The adjustment option allowed the deferred tax liabilities net of the tax on the adjustment to be recognized as income under taxes in the net positive amount of approximately €35 million.

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”

	30/06/2021	30/06/2020
Consolidated equity investments with significant non-controlling interests		
Banca Mediocredito del F.V.G. SpA	(181)	(1,536)
Coopersystem Società Cooperativa	4,872	4,802
BCC Risparmio & Previdenza SGRpA	-	1,196
Other equity investments	(9)	40
Total	**4,682**	**4,502**

PART D - CONSOLIDATED COMPREHENSIVE INCOME

DETAILED BREAKDOWN OF CONSOLIDATED COMPREHENSIVE INCOME

		30/06/2021	30/06/2020
10.	**Net profit (loss) for the period**	**404,985**	**126,625**
	Other comprehensive income not recyclable to profit or loss	**8,930**	**(1,695)**
20.	Equity securities designated as at fair value through other comprehensive income:	7,273	(5,483)
	a) fair value changes	7,270	(10,141)
	b) transfers to other elements of shareholders' equity	3	4,658
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	(107)	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	4,490	(551)
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	(2,726)	4,339
	Other comprehensive income recyclable to profit or loss	**(16,206)**	**(30,376)**
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:	28,503	(6,844)
	a) fair value changes	11,968	334
	b) reversal to income statement	14,167	(6,819)
	c) other changes	2,368	(359)
	of which: result on net positions	-	-
140.	Hedging instruments (undesignated elements):	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	(53,649)	(36,375)
	a) fair value changes	(11,310)	(30,734)
	b) reversal to income statement	(41,235)	(5,124)
	- adjustments for credit risk	1,076	8,357
	- gain/loss on realization	(42,312)	(13,481)
	c) other changes	(1,103)	(517)
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:	1,369	(771)
	a) fair value changes	1,369	(771)
	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	7,571	13,614
190.	**Total other comprehensive income**	**(7,276)**	**(32,071)**
200.	**Comprehensive income (item 10+190)**	**397,709**	**94,553**
210.	Consolidated comprehensive income pertaining to non-controlling interests	4,643	4,045
220.	**Consolidated comprehensive income pertaining to shareholders of the Parent Company**	**393,066**	**90,508**

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.

In April 2021, a revision of the organizational structure of the CRO area approved by the Board of Directors of the Parent Company in February 2021 took effect. This organizational fine-tuning was part of the continuation of the overall finalizing of the structure of the CRO area and was intended to incorporate lessons learned with regard to the overall operating model of the Risk Management function. The current organizational structure envisages:

- a “Risk Governance & Strategy” unit that (i) oversees all risk governance and risk strategy issues for the Group in respect of the affiliated banks, the companies within the direct scope and the Parent Company, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme; (ii) performs activities connected with the preparation of the area’s annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities; (iii) coordinates and monitors strategic projects for the CRO area. This unit is sub-divided into the following organizational units:
  - “*EWS & Stress Test SDG*”, which performas all activities connected wiht the EWS and the Guarantee Scheme. More specifically, the Early Warning System (EWS) regulates the governance mechanisms between the corporate bodies of the affiliated banks and the corporate bodies of the Parent Company and is the tool used to monitor the organization and the financial position and performance of the affiliated Banks, in the interest of their stability and their sound and prudent management. The EWS defines internal operating rules and areas of assessment that, using specific indicators and coded evaluation processes, make it possible to classify the affiliated banks in relation to their riskiness. Each affiliated bank is classified into one of seven risk levels attributable to three overall risk situations (“ordinary”, “strain”, “critical”), which are associated with specific responses of the Parent Company that are graduated in relation to the management constraints associated with the measures (“ordinary”, “coordinated” and “controlled” management). The intervention measures associated with the EWS indicators therefore form an integral part of the strategic/operational plans defined on an individual basis and are implemented by the affiliates involved when preparing the individual RAS, in particular with regard to the definition of the levels of risk propensity/target (risk appetite) and the maximum tolerated and permitted exposure (risk tolerance and risk capacity, respectively). Together with the other structures of the Risk Management function, the unit also contributes (i) to the performance of stress testing connected with the assessment of the vulnerability of each affiliated bank and used in (ii) the definition of the early warning levels and (iii) the determination of the amount of Readily Available Funds to support the Guarantee Scheme;
  - “*BCC Risk Governance”,* which, in close collaboration with the Mutual Bank Risk Management units (Northern Area, Central Area, Southern Area) and in concert with the other competent units of the Risk Management function, (i) develops the Risk Appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operational and business segment; (ii) supports the Group Risk Governance & RM SPD unit in the definition and maintenance of the methodological framework of the Group Risk Governance processes (RAF/RAS, analysis and assessments connected with capital adequacy, stress testing, OMR and incentive system), as well as in the definition of the guidelines to support the preparation of the annual plans and the respective institutional reports of the activities of the Risk Management function broken down by individual mutual bank and, in close collaboration with the Mutual Bank Risk Management units, the efficient and effective operational implementation within the affiliated banks, (iii) supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks, as well as in the related assessment and monitoring activity, in order to enable efficient and effective operational implementation within the affiliated banks and identify any risk mitigation measures required. The unit also has Risk Management specialists who provide support to the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and to

the risk managers of the affiliated b anks for the implementation and application of the risk management framework and the correct and uniform performance of the related risk management activities in compliance with the qualitative and quantitative standards dictated by the Parent Company;

- a "Group Risk Governance & RM SPD" unit, which defines and maintains the methodological framework of the Group's Risk Governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR, incentive system). The unit covers the Group and the companies within the direct scope, in close collaboration with the Planning & Management Control unit and in concert with the other competent units of the Parent Company's Risk Management function and, with regard to the affiliated banks, in collaboration with the Mutual Bank Risk Governance unit. It also represents the top management structure for the Risk Management departments of the companies within the direct scope, whose centralization within the Parent Company under outsourcing arrangements was completed during the first quarter of the year. It ensures the coordination of the risk managers of the individual companies;
- a "Group Risk Management" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the estimation, integration and management of specific risks, (ii) supports the process of defining the Group risk appetite, identifying any risk mitigation measures where necessary and/or advisable and (iii) develops Group-level stress testing exercises and (iv) contributes to the preparation of the Group Recovery Plan;
- a "Mutual Bank Risk Management" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The Mutual Bank RM units (i) have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area; (ii) represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management; and (iii) coordinate the managers in charge of the Risk Management functions of the affiliated banks;
- a "Validation and Support for Cross-Functional Activities" unit: reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed and operates as a transversal support center, ensuring and promoting coordinated management of the operational and liaison mechanisms between the units of the Risk Management function.

The main duties performed by the Risk Management function are the following:

- defining and developing the framework for the assumption and management of risks pertaining to the Group, which is composed of (i) organizational structures and corporate processes (operating, administrative and business), including line controls; (ii) risk governance policies (policies, limits, responsibilities); and (iii) methodologies and risk measurement and assessment criteria. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;
- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;
- monitoring the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Scheme. In this area, the Risk Management function:
  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Scheme, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.
- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;

- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement and Group policies in this area;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies, updating risk measurement and estimation approaches to ensure consistency with sector best practices;
- the specification of risk limits;
- the periodic monitoring of exposures and compliance of approved limits and implementation of appropriate corrective measures where necessary;
- the presence of other support tools to help develop the culture of risk (training courses, remuneration policies and incentives linked to the quality of risk and the results of the Group companies in the long term, systematic and independent Internal Auditing units, etc.).

THE GROUP RISK GOVERNANCE FRAMEWORK

The overall Risk Governance framework developed and adopted by the Group reflects the specific features of the ICBG, whose participatory mechanisms are based on a Cohesion Contract, signed by the 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 Group 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. The overall structure of the RAF is articulated at the Group level and is organized at the operational level by company/business unit and operating areas. Its dimensions can be expressed both in terms of metrics and limits and in terms of guidelines/qualitative indicators. In defining the key elements of the Group RAF, and in the definition of the related operating model, consideration had been given not only to applicable regulations but also to the specific aspects that characterize the ICBG as a group whose members are affiliated by contract, with a view to encapsulating those elements within an organic and integrated framework. In this context, therefore, the RAF makes it possible:

- to reinforce knowledge and awareness in the assumption, management and, more generally, governance of corporate risks;
- to rapidly and effectively direct the system for monitoring and communicating the risk profile;
- to guide risk management and mitigation decisions in a manner consistent with developments in the actual levels of risk assumed and managed.

In line with the principles underlying the ICBG Risk Governance model and with the aim of implementing an integrated system for governing, managing and controlling the Group's risks, the Group Risk Appetite Framework takes account of the Risk Governance mechanisms and processes established by applicable legislation and underlying the establishment of the Iccrea Cooperative Banking Group, as discussed in the report on operations.

SECTION 1 - RISKS WITHIN SCOPE OF ACCOUNTING CONSOLIDATION

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

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

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	1,136,566	2,020,089	373,736	1,878,095	150,953,900	156,362,386
2. Financial assets measured at fair value through other comprehensive income	27	2	-	-	7,509,234	7,509,263
3. Financial assets designated as at fair value	-	-	-	188	315,061	315,249
4. Other financial assets mandatorily measured at fair value	16	1	18	46,710	862,143	908,888
5. Financial assets held for sale	-	-	-	-	-	-
Total 30/06/2021	**1,136,609**	**2,020,092**	**373,754**	**1,924,993**	**159,640,338**	**165,095,786**
Total 31/12/2020	**1,200,060**	**2,329,465**	**212,473**	**1,729,542**	**154,651,918**	**160,123,459**

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

		Impaired				Unimpaired			
		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		8,286,531	4,756,140	3,530,391	325,824	153,762,237	930,241	152,831,996	156,362,386
2. Financial assets measured at fair value through other comprehensive income		41	12	29	-	7,516,858	7,624	7,509,234	7,509,263
3. Financial assets designated as at fair value		-	-	-	-	X	X	315,249	315,249
4. Other financial assets mandatorily measured at fair value		70	36	35	-	X	X	908,854	908,888
5. Financial assets held for sale		-	-	-	-	-	-	-	-
Total	**30/06/2021**	**8,286,643**	**4,756,188**	**3,530,455**	**325,824**	**161,279,095**	**937,865**	**161,565,333**	**165,095,786**
Total	**31/12/2020**	**8,445,386**	**4,703,387**	**3,741,999**	**326,084**	**156,064,119**	**917,815**	**156,381,460**	**160,123,459**

		Assets with evidently poor credit quality		Other assets
		Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading		-	302	230,908
2. Hedging derivatives		-	-	4,074
Total	**30/06/2021**	**-**	**302**	**234,982**
Total	**31/12/2020**	**1,393**	**411**	**271,812**

* Values to be reported for information purposes

SECTION 2 – RISKS WITHIN SCOPE OF PRUDENTIAL CONSOLIDATION

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca determines credit risk management policies at the Group level, setting guidelines and coordinating their implementation within the individual entities. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the subsidiaries, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area (“credit opinion”) before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Iccrea Cooperative Banking Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Bank of Italy Circular No. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion

Contract, defines the strategies, policies and principles for assessing and measuring risks and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With regard to the lending process, the Parent Company defines the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process from loan approval to the management of non-performing positions.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated with (i) the counterparty as well as the economic context in which it operates, (ii) the purpose and characteristics of the transaction to be financed, (iii) the guarantees available and (iv) other forms of credit risk mitigation.

The analysis of the counterparty is conducted so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Cooperative Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on

intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). 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 “watch list” exposures therefore enables the analysis of the risk profile of “watch list” counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) No. 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group’s operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios “corporates and other borrowers”, “short-term exposures to corporates” and exposures to corporates included in the asset classes “in default”, “secured by real estate”, “equity exposures” and “other exposures”.

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the “Geo-Sectoral Concentration Risk Laboratory” of the Italian Banking Association (ABI), which sets geographical and product categories against a national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting

with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

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 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 CREDIT 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:

- 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 three stages:

- stage 1, which includes all newly issued exposures and all exposures in respect of counterparties classified as performing that, as at the reporting date, meet the condition for the low credit risk exemption, or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold, (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date. In the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted and governed by specific internal rules in conformity with supervisory regulations.

The staging method of the Group was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold at the reporting date equal to the investment grade threshold;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures, positions more than 30 days past due or positions under observation (watch list).

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which allocates exposures with a conditional 12-month PD below the investment grade threshold to stage 1. Positions with a conditional 12-month PD above that threshold are allocated to stage 2.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability of a counterparty being classified as non-performing, regardless of the intermediate default states.

In order to make the obtain a forward-looking and lifetime LGD, the macroeconomic multipliers (determined using internally estimated satellite models) are applied to the danger rates for each reference period in the first three years, and estimated for the following years as an average of the multipliers for the first three years. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of implicit multipliers to be applied to the parameters, in particular the PD, estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables provided by our external provider. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario"), which is associated, using judgment, with the corresponding probability of occurrence, also taking account of the greater alignment of the baseline scenario with typical market conditions.

For the conditioning of the LGD parameter to macroeconomic scenarios and the estimation of the corresponding forward-looking measures we use internally estimated "satellite" models.

The IFRS 9 framework was updated to ensure regulatory compliance with new provisions such as the New Definition of Default (New DoD), adopted by the Group starting from January 1, 2021 and first applied for the purposes of calculating credit adjustments starting from the closing of the accounts at March 31, 2021.

Note that the New DoD was intended by the authorities (ECB, EBA, EU Commission) to strengthen the comparability of risk metrics (internal parameters, RWA, NPE ratio) between different institutions, seeking to achieve greater uniformity and comparability in the logic underlying the classification of impaired loans, reduce compliance costs for transnational institutions and minimize the variability of RWAs among banks with similar risk profiles. Given the foregoing, the interventions to ensure compliance with the New DoD performed by the Group in the first quarter of 2021 included the updating and recalibration of the models for measuring credit risk (PD, LGD) so as to incorporate the impacts of the new rules for past due classification and the effect of the mandatory propagation of default status at the Group level for common customers. In particular, the probability of default has been adapted to the new regulatory framework in order to take account of the impact on the probability of occurrence of the default event connected with changes in the process of determining default itself. The LGD parameters were recalibrated to take account of the impacts of the New DoD both in terms of new default flows generated by the adoption of the new definition and the consequent new composition of the impaired portfolio.

IMPACT OF COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[30]

The sharp discontinuity in market conditions generated by the effects of COVID-19, against the continuing extraordinary uncertainty, especially looking forward, has required the implementation of a series of extraordinary measures to incorporate the potential impacts of the pandemic into the impairment model, specifically incorporating the forecasts for the main macroeconomic and financial variables developed by external providers into the risk metrics. The introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the maintenance of the methodological changes in the IFRS 9 impairment framework introduced last year in order to reflect its impact in the calculation of expected credit losses. The following sections set out the measures taken to adjust the impairment framework in connection with the COVID-19 pandemic, which impacted the calculation of expected credit losses at the reporting date.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions in the light of market developments and the expectations expressed over the course of 2020 by the supervisory authorities in this regard.

Measurement of expected losses

The contingent circumstances associated with the COVID-19 emergency made it necessary to take additional specific steps to adjust estimates of expected credit losses and consequently to modify the quantification of IFRS 9 impairment losses to take account of the pandemic. More specifically, in addition to the measures taken to assess the impact of the moratoriums described above, the measures introduced to calculate ECL in order to reflect COVID-19 impacts involved the use of macroeconomic forecast scenarios updated in response to the evolution of the pandemic and market conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by an external provider. These measures were differentiated by type of counterparty, sector of economic activity and geographical area in order to reflect differences in the potential impacts of the pandemic at the sectoral and territorial levels more precisely in the estimate of provisions. The exercise used two different scenarios are considered, a baseline scenario and an alternative scenario, assuming that economic conditions return to normal at the end of the forecast period. The weights of the individual scenarios used for calculating expected credit losses were 90% for the baseline scenario and 10% for the worst plausible scenario.

A sample of the main macroeconomic variables used to apply the forward-looking conditioning factors includes: Italian real GDP growth, the general consumer price index for Italy, the Italian unemployment rate, 3-month Euribor, the 3-year swap rate, the 10-year BTP rate, etc. As regards Italian real GDP growth, in view of the sharp contraction recorded in 2020, forecasts envisage a more rapid recovery in the first forecast year.

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

[30] Starting with the closure of the 2020 interim financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

two general categories:

- funded credit protection, consisting of:
  - collateral, represented by cash deposits, financial instruments that meet certain requirements, and gold. These guarantees can be provided through pledge agreements, transfer of ownership with a guarantee function, repurchase agreements or securities lending arrangements. The Group has implemented systems to a) verify the acceptability of these guarantees and value the assets at the time of acceptance and, where applicable, determine the haircuts to be applied to the collateral; and b) ensure the continuing compliance of the guarantees with eligibility requirements through continuous monitoring, governed and supported appropriately by internal procedures;
  - master netting agreements that involve repurchase agreements, securities lending arrangements, loans with margins as well as OTC derivatives;
  - on-balance-sheet netting;
  - real estate mortgages and property lease transactions involving properties that have the characteristics required by law;
- unfunded credit protection, consisting of unsecured guarantees and credit derivatives.

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: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- 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 "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage "3" is underscored, which occurs when the customer's status changes to "non-performing".

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company's Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the

commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the financial statements of a loan, or part of a loan, and the consequent recognition of a loss ascertainment that the exposure cannot be collected or it is uneconomic to continue any associated recovery activities under way. It may occur before the legal action to recover the financial assets are completed and does not necessarily entail waiver of the bank's right to the asset. A writeoff may be total, and therefore regard the entire amount of a financial, or partial (in all those cases in which the claim recognized is smaller than the carrying amount, for example in insolvency proceedings). The amount of the writeoff must always take account of any expenses, including legal costs, accrued and not yet invoiced at the time of analysis.

A writeoff involves:

- the reversal of total writedowns against the gross value of the financial asset;
- for any part exceeding total writedowns, the impairment loss on the financial asset is recognized directly in profit or loss.

Any recoveries from collection after the recognition of the writeoff are recognized in profit or loss as writebacks.

Writeoffs recognized for unrecoverability refer to cases in which the Bank is in possession of documentation certifying the significant probability that the loan may not be recovered, in whole or in part. Specifically, the irrecoverable status of the loan must be attested to by certain and specific circumstances, such as for example:

- the obligor, co-obligors and/or connected guarantors are untraceable or destitute;
- there has been no recovery from enforcement of guarantees or collateral and seizures;
- the period of limitations has passed;
- insolvency proceedings have been closed with incomplete restitution for the bank, in the absence of further guarantees that could be enforced;
- it is impossible to take further action in consideration of the overall financial position and income situation of the obligors and co-obligors (guarantors included);
- all legal or out-of-court actions have, following a careful examination of updated documentation (by way of partial example, commercial information, title searches, searches, etc.), already been carried out or are deemed inappropriate.

Writeoffs recognized because further action would be uneconomic occur when it is recognized, and can be demonstrated, that the costs related to the continuation of loan recovery actions (for example: legal, administrative and other costs) would exceed the value of the financial asset that is expected to be recovered.

3.3 FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT-IMPAIRED

Financial assets purchase or originated credit impaired ("POCI") are credit exposures that are impaired upon initial recognition.

Such exposures may arise both from the purchase of impaired credit exposures from third parties or from the restructuring of impaired exposures that involved the grant of new financing that is significant in absolute or relative terms in proportion to the amount of the original exposure.

These exposures are subject to management, measurement and control in accordance with the principles discussed in the previous 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 the following concessions to be potentially identifiable as forbearance*:*

- contract modifications granted by a bank in favor of a debtor solely in consideration of the debtor’s financial difficulties;
- the grant of total or partial refinancing by a bank to a debtor in financial difficulties in order to enable the debtor to repay an existing obligation to the bank; this case also includes additional finance operations aimed at the completion-optimization of an existing obligation to the bank;
- contract modifications that can be requested by a debtor under the terms of a contract already agreed by the Bank in the knowledge that the debtor is experiencing financial difficulties (embedded forbearance clauses).

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.

Contract modifications and renegotiations granted solely for commercial reasons/practice do not qualify as forbearance measures since, even though the modification may be a concession measure, the debtor is not experiencing financial difficulties. Debtors can always request modifications to the contractual terms of their loans without experiencing difficulty in meeting their financial obligations.

Loan moratoriums (payment holidays) granted without discrimination between type of obligation or debtor in order to support areas hit by natural disasters also do not qualify as forbearance measures.

Finally, the forbearance measures must always be financially sustainable for the debtor and not increase costs (main and ancillary), as this might qualify the transaction as usury (Article 644, third paragraph, of the Criminal Code).

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.

For a description of the impact of the economic support measures implemented by the government and trade associations on the SICR assessment process and on the measurement of expected credit losses, please see section 2.3 Methods for measuring expected credit losses.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 - IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

A.1.4 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO BANKS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs*
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	16	X	-	16	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	1,287	X	1,024	263	-
- of which: forborne exposures	517	X	515	2	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	184	5	179	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	9,951,125	15,584	9,935,541	-
- of which: forborne exposures	X	-	-	-	-
Total A	**1,303**	**9,951,310**	**16,614**	**9,935,999**	**-**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	697,890	60,817	637,073	-
Total B	**-**	**697,890**	**60,817**	**637,073**	**-**
Total A+B	**1,303**	**10,649,200**	**77,431**	**10,573,072**	**-**

* Values to be reported for information purposes

A.1.5 - PRUDENTIAL CONSOLIDATION - ON-BALANCE-SHEET AND OFF-BALANCE-SHEET CREDIT EXPOSURES TO CUSTOMERS: GROSS AND NET VALUES

	Gross exposure		Total writedowns and total provisions	Net exposure	Total partial writeoffs*
	Impaired assets	Performing assets			
A. On-balance-sheet exposures					
a) Bad loans	4,040,207	X	2,903,614	1,136,593	308,934
- of which: forborne exposures	845,031	X	533,134	311,896	33,876
b) Unlikely to be repaid	3,785,279	X	1,765,450	2,019,829	16,891
- of which: forborne exposures	2,239,778	X	1,005,160	1,234,618	13,966
c) Impaired past due exposures	459,840	X	86,086	373,754	-
- of which: forborne exposures	47,536	X	7,444	40,093	-
d) Performing past due exposures	X	1,972,345	47,492	1,924,853	-
- of which: forborne exposures	X	132,800	8,371	124,429	-
e) Other performing assets	X	150,628,359	874,906	149,753,454	420
- of which: forborne exposures	X	2,344,948	142,023	2,202,925	-
Total A	**8,285,326**	**152,600,704**	**5,677,548**	**155,208,482**	**326,244**
B. Off-balance-sheet exposures					
a) Impaired	326,412	X	73,585	252,827	-
b) Performing	X	25,299,444	109,538	25,189,906	-
Total B	**326,412**	**25,299,444**	**183,123**	**25,442,733**	**-**
Total A+B	**8,611,738**	**177,900,148**	**5,860,671**	**180,651,215**	**326,244**

* 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 supervisory 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.

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.

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.

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).

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:

- level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
- analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
- stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
- loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

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

Deterministic metrics

Sensitivity and Greeks of options

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

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;
- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

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

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

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

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

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

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

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

MONITORING AND REPORTING

The second-level controls, carried out by the Market & Counterparty Monitoring & Control unit, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

QUANTITATIVE DISCLOSURES

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

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

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

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

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

With regard to market risks on the trading book, which are managed at the Group level by Iccrea Banca, a risk tolerance of €7 million in 1-day VaR with a 99% confidence level has been established. In the first half of 2021, the risk profile of all trading operations never breached the RAS limit.

The average VaR of the trading book was €0.50 million, with a minimum of €0.36 million and a maximum of €0.69 million (registered on May 19, 2021).

At June 30, 2021 the VaR was €0.53 million.

Daily VaR Trading Book	Notional (in €/millions at 30/06/2021	VaR	
		Limit	Risk Profile
GBCI	14,036	7	0.53

The following table reports sensitivities by risk factor at June 30, 2021, which correspond to the change in the market value of the trading book as the risk factors change (see section “Deterministic Metrics, Sensitivity and Greeks of Options”).

	Sensitivity Value (in €)	Note
Interest Rates	(73,992)	Sensitivity calculated in relation to 1 bp change
Inflation Rates	135	
Credit spread	(47,095)	
Equity	54,095	Sensitivity calculated in relation to 1% change in the share/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.

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.

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 PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: the risk deriving from mismatches in maturities (for fixed-rate positions) and repricing dates (for variable-rate positions), or changes in the slope or shape of the yield curve (yield curve risk), basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement and assessment

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.
- earnings approach: this seeks to assess the potential effects of adverse interest rate variations on the profitability of the banking book, i.e. net interest income, and on fair value changes recognized through profit or loss or OCI. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics adopted in the economic value approach to measure the sensitivity of the economic value of the banking book (∆EVE – EVE sensitivity) are based on a full evaluation approach. The change in the expected value of the banking book is calculated using an approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time ("bucket sensitivity").

In determining EVE, equity must be excluded from the calculation in order to measure the potential change in value of free capital following changes in the yield curves.

The metrics used in the current earnings approach to measures the sensitivity of the net interest income of the banking book (∆NII – NII sensitivity) are:

- Full Evaluation: the potential impact on net interest income of potential changes in risk-free rates is calculated using a method that provides for the comparison, for a selected time horizon, between expected net interest income in the case of a change in interest rates and expected net interest income in a baseline scenario with no such changes. This methodology is also adopted in stress tests to quantify the impacts on net interest income of possible changes in credit spreads (CSRBB);
- Earnings at Risk: a metric aimed at measuring the loss of profitability due to changes in interest rates, considering, in addition to the impact on net interest income, the effects on changes in the fair value of the instruments recognized (depending on their accounting treatment) in profit or loss or directly in equity;
- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income.

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Bank may be exposed. Each can be associated with internally developed or regulatory scenarios.

- gap risk: in order to monitor this category of risk, parallel and non-parallel shocks of the risk-free yield curves are used in order to assess the impact on economic value and net interest income; in particular; in order to monitor this risk category, parallel and 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 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;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Bank's banking book and the subsequent:
    - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
    - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.
- CSRBB: internally defined scenarios are used based on prudential assessments and historical analyses of the observed changes in credit spreads.

In order to monitor risk limits, parallel and non-parallel shock scenarios are adopted. To monitor the additional metrics subject to reporting requirements, scenarios involving shocks to the yield curves are also envisaged in addition to those adopted as a reference for the determination of risk limits. As part of stress testing, further scenarios are used on periodic basis to signal potential areas of weakness in the presence of particular market conditions.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system of limits (EWS, RAS and Risk Limits) is defined by the Parent Company in accordance with its management and coordination role and implemented through an cascading process with the subsidiaries (where applicable), in line with the risk management model adopted.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and, where the regulatory scenarios are not considered fully representative of especially averse conditions, 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 where appropriate:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (e.g. 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).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

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, 2021 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 95	+ 379
Impact on net interest income	- 131	+ 584

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 regard portfolios of loans to customers, securities holdings and, to a marginal extent, bonds in issue. 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 and variable-rate financial instruments (government securities, loans).

Within the scope of micro fair value hedging, hedges are mainly used for securities holdings and bonds issued, while macro hedging is applied to portfolios of fixed-rate loans, variable-rate loans and a single portfolio of debt securities classified as FVOCI under the HTCS business model.

The main types of derivatives used are represented by plain or structured interest rate swaps (IRS), and asset and yield swaps (ASW) entered into with third parties to ensure compliance with the requirement to externalize risk, which is necessary to qualify for hedge accounting at the consolidated level, in compliance with the provisions of paragraph 73 of IAS 39. These derivatives are not listed on regulated markets, but are traded on OTC markets.

The effects of designating the hedging relationship begin at the inception of the hedge with the identification of the portion and the type of hedged risk, the hedging strategy and the hedging instrument in accordance with the principles the Group has established concerning the methodology used to assess the effectiveness of the hedging relationship.

B. CASH FLOW HEDGING

Cash flow hedging seeks to hedge the exposure to the variability of future cash flows attributable to particular risks associated with balance sheet items or highly probable forecast transactions or to hedge exchange rate risk.

The Group adopts specific hedges of liabilities (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 achieved by setting 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.

In addition, at June 30, 2021 forward sales of government securities falling under the accounting model in question were outstanding, designating the variability of cash flows deriving from a highly probable forecast transactions as the hedged risk. In particular, the fixing – at the trade date - of the sale price of the hedged instrument make these transactions suitable for inclusion in the cash flow hedge model due to the stabilization of cash flows with respect to the risk that the price of the security could change in the opposite direction with respect to the Bank's strategic intention. These transactions are carried out using combinations of purchases and sales of put and call bondoptions, so as to financially replicate a forward contract. These derivative instruments are traded on OTC circuits.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the first half of 2021, 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 bond options as hedging instruments (for the latter, only as cash flow hedges) as hedging instruments. In fair value hedges, interest rate and inflation risk are hedged for the duration of the obligation, while in cash flow hedges, as discussed above, the risk of changes in the sale price of the underlying instrument is hedged. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

The Group currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. With regard to the latter, the effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for fixed-rate loans to customers and secured loans to banks, mainly using amortizing IRS as hedging instruments. The interest rate risk is hedged for the entire term of the hedged item. For micro-type hedges, the effectiveness tests are carried out using the dollar-offset method for retrospective assessment and the cumulative scenario method for prospective assessment. For macro hedges of loans, the capacity of the portfolio subject to designation is verified with respect to the notional amount outstanding at the reporting date of the corresponding hedging derivative. Having passed this first test, effectiveness is quantified both retrospectively and prospectively by applying the dollar offset method. For macro hedges of leases, the criterion of the lower between the nominal value of the hedged item and the notional of the hedging derivative is adopted for the purpose of measuring the change in the fair value of the hedged item, performing the retrospective effectiveness test by applying volatility risk reduction method.

Variable-rate loans

The Group has designated micro fair value hedges and macro fair value hedges for variable-rate loans to customers, using caps, floors or collars with an amortizing notional as hedging instruments. The hedged risk is the risk of a rise (decrease) in rates above (below) the strike of the implicit caps (floors) as well as the probability that the benchmark rate is greater (lower) or approaches the strike rate itself. The hedged rate is the contractually determined strike rate for the individual loans granted by the Bank. The identity of the individual loans making up the hedged portfolio in terms of strike rate level compared with Euribor flat (net of the spread), indexing parameter, date of observation of the indexing parameter, frequency of the individual caplet (frequency of repayments of the amortization plan) is a necessary condition. For micro hedges, the effectiveness tests are carried out using the dollar offsetting method for the retrospective profile and the cumulative scenario for the prospective profile. For macro hedges of loans, the capacity of the designated portfolio is checked first of all with respect to the notional value, at the reporting date, of the corresponding hedge derivative and therefore, after passing this first test, effectiveness is quantified retrospectively and prospectively by applying the dollar offsetting method.

1.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of liquidity risk management within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

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.

As provided for by the Cohesion Contract, the Parent Company also defines liquidity risk management policies, in accordance with the strategic planning and definition of the RAF.

RISK MANAGEMENT PROCESSES

Liquidity risk is identified and monitored at the consolidated and individual levels using the operational and structural maturity ladder (in order to identify possible negative liquidity gaps in relation to specified maturity structure) and the overall liquidity indicator system (RAS, risk limits, contingencies, and additional metrics), designed to quickly identify potential strains.

The process of revising the methodologies, the different assumptions underlying the measurements and the thresholds/limits set for liquidity indicators, carried out at least annually, enables the alignment of the overall Liquidity Risk Framework and the indicator system with specific developments in the Group and market conditions.

Identification of risks

The liquidity risk identification phase can be broken down by the length of the observation horizon:

- operational liquidity – divided into two complementary levels:
  - intraday and very short-term liquidity: monitored on a daily basis in order to identify sources of risk that impact the Bank's ability to promptly balance very short-term cash inflows and outflows and maintain a volume of liquidity sufficient to ensure compliance with the liquidity coverage ratio (LCR) requirement;
  - short-term liquidity: identification of sources of risk that impact the Bank's ability to meet its expected and unexpected payment obligations over a short-term horizon (up to 12 months);
- structural liquidity - identification of structural mismatches between assets and liabilities maturing at more than 1 year and integration with short-term liquidity management as well as planning of actions and preventing the future creation of short-term liquidity shortfalls.

The Group's liquidity profile, and therefore its exposure to liquidity risk, is closely related to the business model adopted, the composition of the balance sheet - in terms of assets, liabilities and off-balance sheet items - as well as the related maturity profile.

The process of identifying and classifying the risk factors connected with the operational and structural liquidity profiles seeks to define the elements that, in terms of risk exposure, could trigger a deterioration in the Group's liquidity position when endogenous and/or exogenous stress events occur.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder, in order to:

- monitor the risk profile in “business as usual” conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, the Group develops two maturity curves: operational and structural.

The operational maturity ladder is used to monitor the short-term liquidity position and is determined both in a business-as-usual scenario and in a stress scenario by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines.

The intraday liquidity position is measured with metrics aimed at monitoring the maximum use of liquidity on an intraday basis, the reserves available at the beginning of each business day to meet liquidity requirements, gross payments sent and received and “time-specific” obligations.

The treasury position is measured on a daily basis by quantifying the liquidity reserves (i.e. counterbalancing capacity, or CBC) and using them to cover any possible negative liquidity balance over the reference time horizon.

This system for monitoring Group operational liquidity makes it possible to monitor:

- management of access to the payments system (operational liquidity management);
- management of the liquidity outflow profile;
- the size and degree of use of liquidity reserves (analysis and active management of the maturity ladder);
- the active management of collateral (cash-collateral management, e.g. refinanceable securities and bank loans);
- the integration of short-term liquidity management actions with structural liquidity requirements.

The structural maturity ladder is used to monitor the overall liquidity position at the consolidated and individual levels at medium/long-term. It is determined by applying prudential run-offs to contractual cash flows generated by assets and liabilities and to the margins of credit lines. The projection of cash inflows and outflows at the various time bands in the ladder is carried out using two distinct approaches in relation to the purpose of the analysis.

The first approach identifies cash flows based on the contractual maturities of the items considered.

The second approach is based on the adoption of behavioral assumptions, with specific regard to the modeling of demand items and margins on the credit lines granted in both a business-as-usual scenario and in a stress scenario.

This tool is essential for obtaining a view of Group funding requirements and an understanding of the liquidity risk associated with execution of the funding plan, thereby preventing the emergence of future liquidity strains. In addition, the structural maturity ladder makes it possible to control:

- the management of maturity transformation in accordance with the guidelines established by management;
- support for the funding decisions in the funding plan.

Risk prevention and attenuation

Liquidity risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the Liquidity Risk Framework. The definition of this system took account of the nature, objectives and complexity of operations.

The system of limits (EWS, RAS, risk limits and contingencies) is defined by the Parent Company consistent with its policy-setting and coordination role and subsequently deployed in accordance with a structured cascading process to the subsidiaries (where applicable) consistent with the liquidity risk management model adopted.

The system of limits is also accompanied by a comprehensive system of systems and controls that contribute to defining the overall control model set out and formalized in the associated policy.

The controls established to manage liquidity risk break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the liquidity profile and activate escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

Second-level controls, which are performed by Risk Management, are intended to monitor the exposure to liquidity risk in order to prepare reports for transmission to the competent units and to initiate the escalation mechanisms, in collaboration with the management functions, should the specified limits be exceeded. Control activities is based on the assessment and measurement of the positioning of the risk indicators established by the Risk Governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the established risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The Group's liquidity position is monitored in the normal course of business and under stress conditions. For the latter, a stress test framework has been defined on the basis of the indicators that characterize the Liquidity Risk Framework.

The stress test analyses are used to measure the degree to which the liquidity position can deteriorate in the event of especially adverse market conditions, thereby enabling verification of its robustness.

Accordingly, the objectives of the stress testing are:

- to verify the capacity to cope with unexpected liquidity crises in the first period in which they occur, before activating initiatives to modify the structure of assets or liabilities;
- to assess vulnerabilities in the liquidity profile, evaluating possible connections between the various risk categories as part of the periodic monitoring process;
- to calibrate the specific risk thresholds for the RAS and Risk Limit indicators for operational and structural liquidity, verifying whether the level of existing limits enables the maintenance of a level of liquidity that ensures that any coverage actions do not compromise the Group's business strategies;
- to identify, in preparing the recovery plan, scenarios that would compromise the survival of the Group if appropriate recovery actions were not taken;

- to test the effectiveness of mitigation actions taken within the Contingency Funding & Recovery Plan and recovery actions provided for in the "near-default" scenarios to be taken in adverse situations in order to limit the Group's exposure to liquidity risk;
- to verify the feasibility of the funding plan, taking due account of the findings of the stress analysis.

In accordance with regulatory provisions, the Bank develops scenarios characterized by stress scenarios associated with the occurrence of systemic or idiosyncratic events in order to test potential liquidity vulnerabilities.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of liquidity position to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- scenario analysis: analysis consisting in the assessment of the Bank's ability to cope with a potential deterioration in its liquidity profile based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The types of stress test that characterize the framework provide for the occurrence of sever but plausible events (scenarios) that can be classified into three categories:

- stress scenarios caused by a systemic event, i.e. an event (or combination of events) reflecting specific macroeconomic variables whose occurrence generates/involves adverse consequences for the entire financial system and/or the real economy and therefore for the Iccrea Cooperative Banking Group;
- stress scenarios caused by specific events (idiosyncratic), i.e. an event (or combination of events) whose occurrence generates/involves highly adverse consequences for the Iccrea Cooperative Banking Group. In defining those events, a specific analysis was conducted, considering the specific organizational, operational and risk features that distinguish the Group;
- stress scenarios generated by a combination of specific and systemic events, i.e. the occurrence of combined events within the same scenario.

The underlying methodological approach for the construction of the systemic and idiosyncratic stress scenarios envisages the identification of the individual types of liquidity risk and the funding/lending items affected by those risks, so as to estimated inflows and outflows for the purpose of highlighting liquidity gaps and verifying the stability of the risk indicators and the ability of the Group to cope with any liquidity strains.

For each scenario, the Group has incorporated shocks generated by the main risk variables, which have been identified on the basis of a logic consistent with the overall stress test framework, enabling the association of specific levels of propagation and the related impact on the indicators.

For example, systemic events considered in constructing the scenarios include:

- a financial market shock that involves a significant change in the level of interest rates;
- a systemic shock that involves a drastic reduction in access to the money market;
- a liquidity squeeze on the interbank market;
- a recession;
- the default of systemically important counterparties.

Idiosyncratic events considered in constructing scenarios include:

- outflows of liquidity caused by substantial withdrawals of deposits by counterparties;
- the occurrence of reputational events that make it difficult to renew funding sources;
- adverse movements in the prices of asset to which the bank is most exposed;
- significant loan losses.

In determining and constructing combined stress scenarios, the framework provides for a targeted combination of systemic and idiosyncratic events in order to increase the severity of the stress exercises. For prudential purposes, the framework does not envisage offsetting effects deriving from the combination of the events considered.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

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, including IT risks.

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

The organizational model of the Risk Management function, adopted since the launch of the Iccrea Cooperative Banking Group, has undergone development and progressive evolution since 2018. The organizational model has progressively been 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 the Parent Group, the Operational & IT Risk Management unit has been established and charged with centralized responsibility for policy-making and coordinating the operational risks for the Iccrea Cooperative Banking Group as a whole. This unit operates as a specialist hub for operational and IT risks, supporting the risk management functions of the companies within the direct scope and the affiliated banks.

With regard to current 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 & IT Risk Management framework is structured into the following phases:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (e.g. operational loss and incident data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to risks, and to constantly monitor the results of the activities performed. This phase concerns the management of operational and IT risks subsequent to the preventive measures taken in the strategic assumption of risk, responding to developments (operating losses or changes in the risk profile) that impact the level of risk determined ex ante.

The operational risk assessment framework outlined above also includes legal risk and is integrated with that for assessing IT risk (IT Risk Management Framework), in line with the relevant regulations.

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. The Risk Management function prepares the necessary reporting in this area, bringing it to the attention of the various internal users (Board bodies, senior management, operating units).

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISKS

For the purpose of calculating capital requirements for operational risk, the Iccrea Cooperative Banking Group mainly uses the Basic Indicator Approach (BIA),[31] which provides for the application of a fixed percentage (15%) to the average of the last three observations of the "relevant indicator" determined in accordance with the provisions of the CRR.

Following the creation of the Iccrea Cooperative Banking Group, and the consequent affiliation of the mutual banks, the components of the operational and IT risk management framework already adopted by the companies of the former Iccrea Banking Group were revised and gradual adoption by the affiliated banks is under way.

The methodological aspects underlying the management framework and the related procedures for application to the Group companies were formalized and approved at the end of 2019 as part of specific Group Policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self-Assessment – OR-SA - and IT Risk Self-Assessment – IR-SA), which are currently being adopted by all Group companies. In 2020 and the first half of 2021, activities leading up to the development of the application system to support operational and IT risk management activities continued.

The loss data collection process has currently been adopted by all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope and are continuing in 2021 with regard to application of the process to the affiliated banks. IT risk management activities included the completion, in March 2021, of the annual information risk profile assessment, which involved Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa.

In 2021, the development of the related application system continued in support of risk assessment processes. With specific regard to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile of Iccrea Banca, BCC Sistemi Informatici and Iccrea BancaImpresa

In addition, in the first half of 2021 and consistent with the work performed the previous year, in step with the evolution of the management framework and the release of applications, the informational and training effort for the Operational Risk Management framework continued,

[31] One affiliated bank adopts the Traditional Standardized Approach (TSA).

with specific attention being paid to operating approaches and support applications. The Risk Management function also supported the collection of operational loss events at the Group level for QIS and COREP regulatory reporting purposes.

RISK PREVENTION AND ATTENUATION

The units involved in operations perform first-level controls to assess and report any irregularities associated with operational issues.

Second-level control units oversee the appropriateness and effectiveness of the organizational and management arrangements taken to address operational and IT risk within the Group's internal control systems. These include the Operational Risks, Compliance and Anti-Money-Laundering units of the Parent Company, the individual subsidiaries and the affiliated banks. These units are active in planning the system and, above all, in verifying its ongoing operation, assessing its adequacy and effectiveness in managing internal and external risks.

Third-level controls are performed by Internal Audit, which assesses the control system's overall appropriateness and efficiency, as well as its regular operation.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a system of monitoring thresholds and limits (tolerance and capacity), with compliance ensured by the monitoring and control activities of the competent units.

The Group RAS sets out, at the level of the individual legal entities, the main indicators of operational risk, namely:

- maximum operational loss (a monitoring indicator measured at the consolidated level and for the affiliated banks);
- minimum acceptable level in respect of the findings of controls of individual relationships with regard to operational and IT risks (an indicator specified for the entire scope of application of the RAF);
- number of significant incidents (measured at the consolidated level).

Monitoring and reporting

The monitoring and control of operational risks is characterized by activities that involve both business functions and control functions in their respective areas of responsibility. In particular, these activities are governed by the unified management framework described earlier and defined within the applicable policies.

In this area, the Risk Management function prepares the necessary periodic reporting, bringing it to the attention of the various internal structures involved (Board of Directors, senior management, operating units).

Risk management and mitigation

Operational and IT risk management and mitigation activities are governed by a set of codified and formalized rules that include:

- the activities and actions that must be performed in each operating and business segment in order to manage developments in the risks assumed;
- the adoption of a set of measures for managing the problems found as part of the risk assessment framework;
- the actions to be taken in the event of breaches of monitoring thresholds or risk tolerances and the risk limits set out in the Risk Appetite Statement;
- the actions to be taken in the event of breaches of the limits defined in risk policies.

QUANTITATIVE DISCLOSURES

As provided for in Circular 285/2013 of the Bank of Italy as updated, for reporting purposes the Group calculates operational risks using the Basic Indicator Approach.

Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of Iccrea is the relevant indicator.

In particular, the Group capital requirement, equal to 15% of the average of the last three observations of the relevant indicator at the end of the previous year, amounted to €615 million.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2020	T	4,145,171
- at December 31, 2019	T-1	4,027,636
- at December 31, 2018	T-2	4,118,360
Relevant indicator average		**4,097,055**
Regulatory coefficient		**15%**
Capital requirement		**614,558**

PART F - INFORMATION ON CONSOLIDATED CAPITAL

SECTION 1 - CONSOLIDATED CAPITAL

A. QUALITATIVE DISCLOSURES

The Group's strategic priorities include monitoring the amount and dynamics of its capital. Capital constitutes the first bulwark against the risks associated with operations and the main reference parameter for assessments of the Group's solvency by supervisory authorities and investors. It contributes positively to the formation of operating income, funds the Group's technical and financial fixed assets and supports dimensional growth, representing a decisive element in the development phases.

Managing capital adequacy at the consolidated and individual levels involves defining the scale and optimal combination of different capital instruments, in compliance with regulatory constraints and consistent with the risk profile assumed by the Group.

The notion of capital adopted by the Group in its assessments is the "own funds" aggregate as established with Regulation (EU) No. 575/2013 (CRR), broken down into the three components of Common Equity Tier 1 (CET 1), Tier 1 and Tier 2. The capital thus defined, the main resource for supporting corporate risks according to prudential supervisory regulations, is the best foundation for the effective management of risk, both from a strategic and operational standpoint, as it a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks it has assumed.

Current and forward-looking capital adequacy is therefore monitored in two spheres:

- regulatory capital to cover Pillar I risks;
- total internal capital to cover Pillar II risks, for ICAAP purposes.

In the evolutionary sizing of the Group's own funds, the specific policies for allocating the net profit of the affiliated banks play an important role, seeking to support the constant strengthening of reserves. In compliance with the specific sector regulations, these banks allocate a large majority of their net profits to indivisible reserves. Capital adequacy compliance is pursued not only through careful policies for the distribution of the available component of profits but also through the prudent management of investments, in particular loans, in line with risk represented by counterparties and the related capital requirements, and with plans for strengthening capitalization based on the expansion of the shareholder base and the issue by the Parent Company of subordinated liabilities or additional equity instruments eligible for inclusion in the relevant own funds aggregates.

More specifically, in order to constant maintain its capital adequacy, the Group has deployed processes and tools to determine the level of internal capital adequate to face any type of risk assumed, as part of an assessment of the current, prospective and "stressed" exposure that takes account of corporate strategies, growth objectives and developments in the reference context.

A careful assessment of the compatibility of projections is carried out annually as part of the process of setting budget targets. Depending on the expected developments in balance sheet and income statement aggregates, any necessary initiatives are taken at this stage to ensure financial balance and the availability of financial resources consistent with the strategic and development objectives of the individual entity and the Group as a whole.

Compliance with supervisory requirements and the consequent adequacy of capital is verified on a quarterly basis. The aspects subject to verification are mainly the ratios connected with the Group's financial structure (loans, impaired exposures, non-current assets, total assets) and the degree of risk coverage.

Additional specific analyzes for the purpose of the preventive assessment of capital adequacy are carried out when necessary prior to extraordinary operations such as mergers and acquisitions, or the sale of assets.

The minimum capital requirements are those established by applicable supervisory regulations (Article 92 of the CRR), according to which the Common Equity Tier 1 ratio must be at least 4.5% of total risk weighted assets ("CET1 capital ratio"), Tier 1 capital must represent at least 6% of total risk weighted assets ("Tier 1 capital ratio") and total own funds must be at least 8% of total weighted assets ("Total capital ratio").

In addition, the competent supervisory authorities periodically issue a specific decision regarding the capital requirements that the Group must comply with following the prudential review and evaluation process ("SREP") conducted pursuant to Article 97 et seq. of Directive 2013/36/EU (CRD IV).

In particular, Article 97 of the CRD IV establishes that the competent authorities shall periodically review the arrangements, strategies, processes and mechanisms that groups and supervised banks implement to face the risks to which they are exposed. With the SREP, the competent authorities therefore review and evaluate the process of determining capital adequacy conducted internally by the Group, analyze its risk profile individually and from an aggregate perspective, including under stress conditions, and assess its contribution to systemic risk; assess the corporate governance system, the operation of corporate bodies, the organizational structure and the internal control system; and verifies compliance with all prudential rules.

With regard to the outcome of the Supervisory Review and Evaluation Process (SREP), on November 17, 2020, the supervisory authorities notified Iccrea Banca that as a result of the COVID-19 pandemic it had taken the pragmatic decision to not adopt a new SREP decision, instead maintaining the prudential requirements determined in 2019 SREP decision for all of 2021.

Accordingly, the consolidated own funds requirements for 2021 remain:

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

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

- a Total SREP Capital Requirement (TSCR) of 10.5%, of which at least 7% shall consist of Common Equity Tier 1 instruments;
- an OCR equal to 13%, of which at least 9.5% shall consist of Common Equity Tier 1 instruments.

With regard to the Group's affiliated banks, the SREP decision did not impose own funds requirements to be met on an individual basis. Therefore, in order to comply with the aforementioned consolidated requirements, mechanisms have been provided for their allocation at individual level within the main risk governance processes (i.e. RAF, EWS), compatibly with the capital resources of each affiliated bank, thus ensuring that the Group's strategies and capital constraints are also reflected at the individual level.

B. QUANTITATIVE DISCLOSURES

B.1 CONSOLIDATED EQUITY: BREAKDOWN BY TYPE OF ENTITY

The table reports the components of shareholders' equity at carrying amount, adding the Group's equity to that pertaining to non-controlling interests, broken down by the type of consolidated entity. More specifically:

- the column, "Prudential consolidation" reports the amount resulting from consolidation of the companies belonging to the banking group, gross of the financial effects of any transactions that may have been performed with other companies included within the scope of consolidation; fully-consolidated subsidiaries, other than those in the "Banking Group", are measured using the equity method here;
- the column "Other entities" reports the amounts resulting from consolidation, including financial effects deriving from transactions carried out with companies that are part of the banking group;
- the column "Consolidation eliminations and adjustments" shows the adjustments necessary to obtain the figures reported in the financial statements.

	Prudential consolidation	Insurance undertakings	Other entities	Consolidation eliminations and adjustments	Total
1. Share capital	2,364,087	-	-	-	2,364,087
2. Share premium reserve	150,042	-	-	-	150,042
3. Reserves	8,736,001	-	-	-	8,736,001
4. Equity instruments	30,139	-	-	-	30,139
5. (Treasury shares)	(1,261,450)	-	-	-	(1,261,450)
6. Valuation reserves:	246,945	-	-	-	246,945
- Equity securities designated as at fair value through other comprehensive income	(1,363)	-	-	-	(1,363)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	47,868	-	-	-	47,868
- Property, plant and equipment	(71)	-	-	-	(71)
- Intangible assets	-	-	-	-	-
- Hedging of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	(4,630)	-	-	-	(4,630)
- 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	(53,152)	-	-	-	(53,152)
- Share of valuation reserves of equity investments accounted for using equity method	1,499	-	-	-	1,499
- Special revaluation laws	256,794	-	-	-	256,794
7. Net profit (loss) for the period (+/-)	404,985	-	-	-	404,985
Shareholders' equity	**10,670,750**	**-**	**-**	**-**	**10,670,750**

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	**85,385**	**(7,630)**	**-**
2. Increases	**16,362**	**9,193**	**-**
2.1 Fair value gains	10,361	7,655	-
2.2 Writedowns for credit risk	1,403	X	-
2.3 Reversal to income statement of negative reserves: from realization	2,038	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	2,559	1,538	-
3. Decreases	**53,879**	**2,926**	**-**
3.1 Fair value losses	17,955	2,257	-
3.2 Writebacks for credit risk	858	-	-
3.3 Reversal to income statement of positive reserves: from realization	31,630	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	273	-
3.5 Other changes	3,436	396	-
4. Closing balance	**47,868**	**(1,363)**	**-**

B.4 VALUATION RESERVES FOR DEFINED-BENEFIT PLANS: CHANGE FOR THE PERIOD

Valuation reserves for defined-benefit plans were a negative €53.2 million, down €3.8 million compared with the end of 2020.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During the period no business combinations involving the acquisition of control pursuant to IFRS 3 were carried out.

For corporate reorganization purposes, the following 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 between BCC del Cilento di Sassano e Vallo di Diano e della Lucania and BCC di Buonabitacolo, leading to the creation of Banca 2021 – CC del Cilento, Vallo di Diano e Lucania S.C with effect from January 1, 2021;
- the merger of Banca San Giorgio Quinto Valle Agno - Credito Cooperativo - Società Cooperativa with Banca di Verona Credito Cooperativo Cadidavid s.c.p.a. with legal effect from April 1, 2021;

SECTION 2 – TRANSACTIONS AFTER THE CLOSE OF THE PERIOD

On April 15, 2021, the ECB authorized the merger of Banca Valdichiana Credito Cooperativo di Chiusi and Montepulciano – Società Cooperativa into Banca Terre Etrusche and di Maremma - Credito Cooperativo - Società Cooperativa. The operation will take effect from July 1, 2021.

On May 18, 2021, the ECB authorized the merger of Banca di Credito Cooperativo di Borghetto Lodigiano - Società Cooperativa into Banca Centropadana Credito Cooperativo - Società Cooperativa, which will take effect from September 1, 2021.

These transactions will have no impact on the consolidated financial statements since they were carried out on an unchanged values basis for corporate reorganization purposes.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

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

PART H - TRANSACTIONS WITH RELATED PARTIES

1. INFORMATION ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following table provides information on the remuneration paid in the first half of the year 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 30/06/2021				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	4,495	149	-	-	-

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 tables summarize balance sheet positions and their financial effects carried out in the first half of the year with the related parties of the Group other than fully consolidated intercompany transactions.

	Total 30/06/2021			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	27,430	126,905	1,366	5,004
Total other assets	43	1,783	-	159
Financial liabilities	15,664	36,838	3,513	6,753
Total other liabilities	278	3,379	41	553
Commitments and financial guarantees issued	63,088	4,475	142	589
Commitments and financial guarantees received	5,940	-	2,190	6,804
Provisions for doubtful accounts	-	1,649	-	-

	Total 30/06/2021			
	Unconsolidated subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	99	76	9	108
Interest expense	(17)	(3)	(8)	(103)
Dividends	-	-	-	-
Fee and commission income	463	10,917	6	31
Fee and commission expense	(603)	(3)	-	(6)
Net gain (loss) on trading activities	-	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Other operating expenses/income	(1,295)	(722)	(7)	(728)
Writedowns/writebacks of impaired financial assets	8	-	-	-

PART I - SHARE-BASED PAYMENTS

The Iccrea Cooperative Banking Group has no payment agreements based on its own equity instruments in place.

PART L - OPERATING SEGMENTS

A. PRIMARY REPORTING BASIS

The companies within the Group mainly operate exclusively in the following segments:

- Institutional: business conducted with institutional counterparties (mutual banks, other banks and public institutions), such as payment services, financial intermediation (trading and capital markets), and foreign activities, as well as additional support services for affiliated banks. The segment includes the operations of the Parent Company Iccrea Banca, BCC Sistemi Informatici, BCC Gestione Crediti, BCC Solutions, BCC Beni Immobili, Sinergia, Sigest and Coopersystem;
- Corporate: business focused mainly on financing small and medium-sized companies that are customers of the mutual banks. The segment includes the operations of Iccrea BancaImpresa, BCC Lease, BCC Factoring and Banca Mediocredito del F.V.G.;
- Retail: mainly asset management activities on an individual and collective basis for retail customers (BCC Risparmio&Previdenza), consumer credit (BCC CreditoConsumo) and the traditional banking activities of Banca Sviluppo;
- Mutual banks: includes all of the mutual banks that have joined the Group and the associated Guarantee Scheme.

The following reports a summary income statement and key financial aggregates by business segment. The column reporting inter-segment transactions includes intercompany eliminations between the companies included in different segments.

The breakdown by segment has not change compared with that reported in the annual report at December 31, 2020.

A.1 DISTRIBUTION BY BUSINESS SEGMENT: INCOME STATEMENT

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Net interest income	66,136	43,516	27,229	1,178,781	52,801	1,368,463
Net fee and commission income	4,315	94,945	26,589	549,983	(19,561)	656,271
Other financial expense and income	2,961	138,575	161	247,028	(66,189)	322,536
Gross income	**73,411**	**277,036**	**53,979**	**1,975,791**	**(32,948)**	**2,347,269**
Net value adjustments	(44,031)	(18,177)	(7,140)	(321,091)	(223)	(390,662)
Net gains (losses) on financial operations	**29,381**	**258,860**	**46,839**	**1,654,700**	**(33,171)**	**1,956,608**
Operating expenses	(35,812)	(152,740)	(26,633)	(1,318,227)	13,239	(1,520,172)
Other costs and revenues	-	9,151	-	(1,949)	5,413	12,615
Profit/(loss) from continuing operations before tax	**(6,431)**	**115,270**	**20,206**	**334,525**	**(14,519)**	**449,051**
Income tax for the period on continuing operations	2,318	(22,392)	(6,274)	(17,527)	(190)	(44,065)
Profit/(loss) for the period	**(4,113)**	**92,878**	**13,932**	**316,998**	**(14,709)**	**404,985**
Profit/(loss) for the period pertaining to non-controlling interests	**(181)**	**4,873**	**(9)**	**-**	**-**	**4,682**
Profit/(loss) for the period pertaining to shareholders of the Parent Company	**(3,931)**	**88,006**	**13,941**	**316,998**	**(14,709)**	**400,303**

A.2 DISTRIBUTION BY BUSINESS SEGMENT: BALANCE SHEET

	CORPORATE	INSTITUTIONAL	RETAIL	MUTUAL BANKS	INTER-SEGMENT TRANSACTIONS	TOTAL
Financial assets	360,293	12,640,042	74,459	59,293,781	(2,758,638)	69,609,937
Due from banks	260,423	30,204,043	438,476	17,277,902	(39,496,123)	8,684,721
Loans to customers	5,410,340	6,199,438	1,116,508	76,920,461	(1,910,703)	87,736,045
Funding from banks	4,603,511	38,032,557	1,391,908	31,586,675	(40,945,805)	34,668,846
Funding from customers	694,252	7,047,949	183,167	103,024,790	(139,127)	110,811,031
Securities and other financial liabilities	62,868	4,202,492	5,380	9,720,488	(1,443,547)	12,547,681

B. SECONDARY REPORTING BASIS

As regards the secondary reporting basis, please note that the Group operates almost exclusively in Italy.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

At the reporting date, the Group had 3,145 lease/rental contracts falling within the scope of IFRS 16 as they refer to operating leases involving property, plant and equipment in the following classes of assets:

- capital equipment (printers and other office equipment, personal computers, servers, smartphones/tablets, cars and company vehicles, advanced ATMs, etc.);
- real estate, in particular the premises in which the branches operate and spaces for ATMs.

These assets are mainly intended for use in the normal operations of the company and for this reason they are mainly classified under assets held for use in operations. For more details on the recognition and measurement criteria involved, please see Part A "Accounting Policies" of these notes to the financial statements.

The rental contracts entered into by the Group normally provide for fixed payments for a specified period of time and, with the exception of property leases, do not envisage an extension option. Based on the foregoing, the effective term of the individual leases is taken into account for the purpose of accounting for the rights of use, while in cases in which an extension option is envisaged and its exercise is considered highly probable, the Group considers the contractual term inclusive of the extension period, unless factors or specific situations envisaged within the contract suggest a different assessment. This is because the properties in question are functional to the performance of the activities of the Group companies and non-exercise of the extension option is only considered in cases where impediments have arisen independently on the intentions of the companies themselves, i.e. the decision not to extend the lease was prompted by initially unforeseeable circumstances (e.g. changes of location, increase in lease payments, etc.).

If provided for by the lease agreement, the Group also does not consider early termination options unless factors or specific circumstances make it highly probable that the option will be exercised before the expiry of the lease (such as, for example, the impediments or the specific needs mentioned above).

QUANTITATIVE DISCLOSURES

For further quantitative information concerning the assets acquired by the Group through leases, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, assets, section 9, as regards rights of use in respect of leased assets held at the reporting date;
- part B, liabilities, section 1, as regards lease liabilities outstanding at the reporting date;
- part C, section 1, as regards interest expense on leasing liabilities accrued during the year;
- part C, section 14, as regards depreciation of rights of use recognized during the year.

Note that in determining the depreciation rates to be applied to the rights of use in respect of assets acquired under leases, reference has been made to the contractual term of the underlying leases, also taking account any extension/termination options where the probability that they will be exercised is considered high, depending on the nature of the transaction (finance/operating lease) and the type of asset.

SECTION 2 – LESSOR

QUALITATIVE DISCLOSURES

Lease transactions undertaken by Group mutual banks as a lessor are negligible.

Leases in which the Group is the lessor mainly regard the lease of commercial and residential properties.

The Group mainly enters into finance leases with customers and is active in the real estate, residential, equipment, vehicle and marine lease sectors.

Lease payments for the period are recognized in profit or loss under operating income.

For more details on the recognition and measurement criteria involved, please see Part A "Accounting Policies" of these notes to the financial statements.

QUANTITATIVE DISCLOSURES

1. INFORMATION IN THE BALANCE SHEET AND INCOME STATEMENT

For additional quantitative information on lease transactions undertaken by the Group, please see the disclosures provided in the tables in the sections of the notes to the financial statements indicated below:

- part B, Assets, section 4, as regards lease financing granted by the Group in relation to finance leases;
- part B, assets, section 9, as regards property, plant and equipment leased to others by the Group through rental contracts;
- part C, section 1, as regards interest income on the above lease financing accrued during the period;
- part C, section 16, as regards other income connected with the lease operations undertaken the Group as a lessor.

2. FINANCE LEASES

2.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED AND RECONCILIATION WITH LEASE FINANCING RECOGNIZED UNDER ASSETS

	Total 30/06/2021	Total 31/12/2020
	Payment to be received for leases	Payment to be received for leases
Up to 1 year	855,711	812,137
From more than 1 year up to 2 years	708,778	722,372
From more than 2 years up to 3 years	571,552	581,869
From more than 3 years up to 4 years	438,954	441,169
From more than 4 years up to 5 years	325,666	322,164
From more than 5 years	1,706,895	1,799,443
Total payments to be received for leases	**4,607,557**	**4,679,154**
Reconciliation with financing	**(1,306,493)**	**(1,410,160)**
Financial income not accrued (-)	(624,651)	(718,457)
Unguaranteed residual value (-)	(681,842)	(691,703)
Lease financing	**3,301,065**	**3,268,995**

The balance of lease financing does not include past due principal and interest, exposures to terminated leases or writedowns on outstanding financing at the reporting date.

2.2 OTHER INFORMATION

No other information to report.

3. OPERATING LEASES

3.1 CLASSIFICATION BY MATURITY OF PAYMENTS TO BE RECEIVED

	Total 30/06/2021	Total 31/12/2020
	Lease payments to receive	Lease payments to receive
Up to 1 year	3,275	3,461
From more than 1 year up to 2 years	3,013	3,227
From more than 2 years up to 3 years	2,286	2,801
From more than 3 years up to 4 years	1,355	2,111
From more than 4 years up to 5 years	992	1,467
From more than 5 years	1,075	1,596
Total	**11,995**	**14,664**

3.2 OTHER INFORMATION

No other information to report.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Auditor's review report on interim consolidated financial statements

(Translation of the original report issued in Italian)

Interim consolidated financial statements as at 30 June 2021

ORMB/NSDN/vbrb - R2021/00842

mazars

Via Toscana, 1
00187 Roma

Tel: +39 06 833 65 900
www.mazars.it

Review report on the interim consolidated financial statements

(Translation of the original report issued in Italian)

To the shareholders of Iccrea Banca S.p.A.

Introduction

We have reviewed the attached interim consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows, and the related explanatory notes of Gruppo Bancario Cooperativo Iccrea as at June 30, 2021. The directors are responsible for the preparation of the interim consolidated financial statements in accordance 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 statement 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 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 attached interim consolidated financial statements of Gruppo Bancario Cooperativo Iccrea, as at June 30, 2021, have not been prepared, in all significant aspects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Other matters

The consolidated financial statements for the year ended December 31, 2020 and the interim consolidated financial statements for the half-year period ended June 30, 2020 have been respectively audited and reviewed by another auditor who expressed an unqualified opinion on the consolidated financial statements on May 5, 2021 and expressed an unqualified conclusion on the interim consolidated financial statements on October 13, 2020.

Rome, September 30, 2021

Olivier Rombaut
Partner – Registered auditor

(signed on the original)

This report has been translated into English from the Italian original solely for the convenience of international readers.

Mazars Italia S.p.A.

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REPORT AND SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY ICCREA BANCA SPA

REPORT ON OPERATIONS OF THE PARENT COMPANY

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

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 (BCC Pay SpA), which was established on December 20, 2018 — in application of IFRS 5, in the separate financial statements of Iccrea Banca at June 30, 2021, the items attributable to the aforementioned branch have been reclassified to the balance sheet and income statement items for assets held for sale.

In view of the foregoing, for the purposes of comparability of the results of the Parent Company with the previous period, the figures related to the two business units being sold/sold in the following reclassified schedules have been reallocated to the related items of the separate financial statements.

Furthermore, with a view to maximizing potential model/process synergies and efficiencies in order to improve the level of service provided to the affiliated mutual banks as part of the evolutionary plan for the "Corporate" sector, which envisages the reorganization of the companies of the direct scope operating in that segment, the transfer of the non-lease lending operations of Iccrea BancaImpresa (ordinary lending, special and international credit and extraordinary corporate finance) to Iccrea Banca was completed, with Iccrea BancaImpresa retaining the lease-related business only.

BALANCE SHEET

Assets

€/thousands	30/06/2021	31/12/2020
Financial assets measured at amortized cost – *Due from banks – Loans and securities*	30,681,203	33,192,774
Financial assets measured at amortized cost –*Due from customers – Loans*	6,252,449	4,501,678
Financial assets measured at amortized cost – *Due from customers – Securities*	10,732,027	9,791,187
Financial assets measured at fair value through profit or loss	1,341,170	1,335,470
Financial assets measured at fair value through other comprehensive income	452,225	311,207
Equity investments	1,335,511	1,206,207
Other assets	513,234	300,457
Total interest-bearing assets	**51,307,818**	**50,638,980**
Other non-interest-bearing assets	313,219	320,177
Total assets	**51,621,036**	**50,959,158**

At June 30, 2021 total assets amounted to €51.6 billion, a slight increase compared with the €51.0 billion posted at the end of December 2020, mainly reflecting the following developments:

- loans measured at amortized cost were almost unchanged compared with the end of 2020, reflecting the offsetting effect of an increase in amounts due from customers and a decrease in amounts due from banks. More specifically:
  - the increase in amounts due from customers is largely attributable to the acquisition of the assets – notably medium/long-term loans following the reorganization of the "Corporate" segment - of Iccrea BancaImpresa (+€2.7 billion) and an increase in investments in debt securities (+0.9 billion, largely Italian government securities), partly offset by a reduction in repo transactions (-€1.2 billion);
  - the decrease in amounts due from banks reflects a decrease in loans (-€5.2 billion, partly in relation to a decline in the funding needs of Iccrea BancaImpresa), only partially offset by the growth in the reserve requirement maintained on behalf of the mutual banks (+€2.6 billion);
- an increase in financial assets measured at FVTPL (+€5.7 million, to €1.3 billion), attributable to the net effect of the following developments:
  - the increase in other financial assets mandatorily measured at fair value (+€133 million), mainly due to the acquisition of the funds previously held by Iccrea BancaImpresa following the reorganization of the "Corporate" segment (in particular units of CIUs in the amount of €94.1 million) and, to a lesser extent, an increase in purchases of debt securities (+€21.6 million) and equity securities (+€9.4 million);
  - the decrease in assets held for trading, mainly attributable to a decline in the value of trading derivatives (-€129.4 million);
  - the reduction of assets originally designated as at fair value (-€28.3 million), represented by the assets included in the Guarantee Scheme managed by the Parent Company;
- a €141 million increase in financial assets measured at fair value through comprehensive income, which held under the HTCS business model, reflecting the joint effect of the purchase of debt securities (especially those of public issuers in the euro area) in the amount of €50.9 million and equity securities of banks in the amount of €85.8 million (almost entirely Bank of Italy shares);

- an increase in equity investments (+€129 million), which reflected the acquisition of the shares previously held by Iccrea BancaImpresa (following the reorganization of the "Corporate" segment noted earlier), with an increase in the equity investments held in BCC Sistemi Informatici (+€0.5 million), Banca Mediocredito FVG (+€15 million) and BCC Factoring (+€19.1 million). There was also an increase in the investments held in Banca Sviluppo (+€28.4 million), BCC Risparmio e Previdenza (+€26 million) and Sinergia (+€0.2 million). An additional factor was the subscription of shares issued pursuant to Article 150 ter of the Consolidated Banking Act as manager of the Guarantee Scheme) by Banca Centropadana (+€13.2 million) and Banca Valdichiana (+€35 million). These changes were partially offset by the sale of the stake in Satispay (-€8.1 million).

€/thousands	30/06/2021	31/12/2020
Mutual banks	19,001,558	20,824,539
Other credit institutions	11,679,645	12,368,235
Due from banks	**30,681,203**	**33,192,774**

Amounts due from banks largely include lending to the affiliated banks (€19 billion, down €1.8 billion compared with 2020). These loans, disbursed against pool collateral, include about €19 billion in operations with the ECB (TLTRO III and T-LTRO II for the remainder), with the residual component being other forms of collateralized financing. Amounts due from other credit institutions (including debt securities) include €4 billion in intercompany lending (about €3.3 billion to Iccrea BancaImpresa) and deposits with third parties for the remainder.

€/thousands	30/06/2021	31/12/2020
Current accounts	193,589	276,755
Medium/long-term loans	2,635,387	59,566
Repurchase transactions	609,080	1,772,307
Other transactions	2,694,639	2,387,353
Impaired assets	119,754	5,696
Due from customers	**6,252,449**	**4,501,678**

Loans to ordinary customers amounted to €6.3 billion, an increase on the €4.5 billion posted at the end of December 2020, of which €1.9 billion in intercompany financing. The increase in the sub-item "medium/long-term loans" (+€2.6 billion) is attributable to the transfer of the "Corporate" lending operations of Iccrea BancaImpresa, partially offset by a reduction in repurchase agreements with the Clearing & Guarantee Fund (-€1.2 billion).

Liabilities and equity

€/thousands	30/06/2021	31/12/2020
Financial liabilities measured at amortized cost – *Due to banks*	37,903,466	33,889,855
Financial liabilities measured at amortized cost – *Due to customers*	7,154,618	9,740,677
Financial liabilities measured at amortized cost – *Securities issued*	3,289,756	4,186,006
Financial liabilities held for trading	453,556	563,511
Financial liabilities designated as at fair value	336,289	340,957
Other liabilities	592,351	391,585
Total interest-bearing liabilities	**49,730,036**	**49,112,591**
Other non-interest-bearing liabilities	170,091	215,700
Shareholders' equity	1,639,742	1,697,663
Profit for the period	81,166	(66,795)
Total liabilities and equity	**51,621,036**	**50,959,158**

The slight increase in liabilities and equity in the first half of 2021 is attributable entirely to the increase of €0.6 billion in interest-bearing funding, which is the net effect of the following factors:

- an increase of €4 billion in amounts due to banks to €37.9 billion, due to an increase in time deposits (+€1.7 billion, entirely intercompany), ECB funding (+€1.9 billion) and current accounts and demand deposits (+€0.5 billion);
- a reduction of €3.5 billion in amounts due to customers and securities issued, which declined to €10.4 billion, due to: (i) a decrease in repurchase agreements with the Clearing & Guarantee Fund (-€1.5 billion); (ii) a reduction in OPTES operations with the MEF (-€1 billion); and (iii) a decrease in securities issued due almost entirely to the redemption of maturing securities (-€0.9 billion);
- a decrease in liabilities held for trading, attributable mainly to the decline in the value of trading derivatives (-€134 million, connected with the analogous development in the corresponding asset item);
- a slight decrease in financial liabilities designated as at fair value in respect of financing received from the affiliated banks (the Ex Ante Quota) in connection with the Guarantee Scheme as a result of the distribution of income accrued in 2020.

€/thousands	30/06/2021	31/12/2020
Mutual banks	16,074,971	13,853,920
Other credit institutions	21,828,495	20,035,935
Due to banks	**37,903,466**	**33,889,855**

Amounts due to banks, which include €6 billion in deposits of the affiliated banks to meet reserve requirements, include: (i) €16.1 billion in positions with the affiliated banks mainly in respect of time deposits (€12.2 billion) and amounts held on the daily settlement account (€3.4 billion); (ii) €21.8 billion in amounts due to other credit institutions, largely related to financing from the ECB under TLTRO III in the amount of €20.9 billion (with the remaining €78 million related to TLTRO II); and (iii) intercompany positions with companies within the direct scope for the remainder.

€/thousands	30/06/2021	31/12/2020
Current accounts and deposits	761,996	941,373
Financing	5,751,507	8,212,042
Other payables	641,116	587,262
Due to customers	**7,154,618**	**9,740,677**

Funding with customers amounted to €7.2 billion, down €2.6 billion compared with December 31, 2020. The decrease is attributable to a decline in repurchase transactions (-€1.5 million) and OPTES transactions with the MEF (-€1 billion).

Equity

At June 30, 2021, the share capital of Iccrea Banca, represented by 27,125,759 ordinary shares with a par value of €51.65 each, was equal to €1.4 billion, unchanged from 2020. Shareholders' equity, excluding profit for the year, amounted to €1.6 billion, a decrease of €58 million compared with December 31, 2020. The change is mainly due to the loss carried forward from 2020 (-€66.8 million) and the increase in valuation reserves (+€9.8 million), mainly due to changes in the cash flow hedge reserve as a result of hedges expiring during the period.

Income statement

€/thousands	30/06/2021	30/06/2020
Net interest income	**88,245**	**35,006**
Other gains/losses on financial transactions	61,639	43,086
Dividends	27,865	37,041
Net fee and commission income	**88,749**	**68,749**
Other operating expenses/income	95,063	78,845
Gross income	**361,561**	**262,727**
Personnel expenses	(101,546)	(91,961)
Other administrative expenses	(161,452)	(130,687)
Net adjustments of property, plant and equipment and intangible assets	(1,755)	(10,077)
Total operating expenses	**(264,753)**	**(232,724)**
Gross operating profit	**96,807**	**30,003**
Net provisions for risks and charges	8,284	(787)
Net losses/recoveries on impairment of loans and other financial transactions	(18,177)	(11,218)
Total provisions and adjustments	**(9,893)**	**(12,005)**
Profit/(loss) from equity investments	12,011	(25,540)
Profit/(loss) before tax	**98,926**	**(7,542)**
Income tax expense	(17,760)	1,335
Profit/(loss) for the period	**81,166**	**(6,207)**

Profit for the period amounted to €81.2 million, an improvement of €87.4 million compared with the loss posted at the end of June 2020 (-€6.2 million). The main developments leading to this performance for the period include:

- an increase of €98.8 million in gross income, which rose to €361.6 million, reflecting:
  - an increase in net interest income attributable to: i) the interest on loans transferred with "Corporate" lending operations of Iccrea BancaImpresa (+€35.8 million), partially offset by the reorganization of funding granted to companies within the direct scope, primarily Iccrea BancaImpresa as a result of the transfer (-€18.6 million); ii) an increase in interest connected with TLTRO III transactions (+€22 million); and iii) the increase in the overall contribution of the income on and volume of assets in the securities portfolio (+€14.5 million, with almost all of this accounted for by Italian government securities);
  - an increase net fee and commission income (+€20 million) deriving mainly from: (i) services connected with customers acquired from Iccrea BancaImpresa (+€15.2 million); (ii) growth in e-money fees (+€5.5 million), which gained ground thanks to an increase in transaction volumes compared with the year-earlier period, which had been severely impacted by the lockdown; and (iii) an increase in fees and commissions from collection and payment services (+€1.4 million); all partially offset by (iv) a decrease in fees and commissions for IT services provided to Group companies following the transfer of IT operations to BCC Sistemi Informatici;
  - an increase in "other gains/losses on financial transactions" to €61.6 million (+€18.6 million compared with the year-earlier period), buoyed by increased gains on the sale of the securities (exclusively government securities) in the HTC and HTCS portfolios;
  - a decrease in dividend income (-€13.3 million, to €27.9 million) paid by direct subsidiaries as a result of the deterioration in performance or losses recorded by a number of companies in 2020, only partially offset by dividends deriving the investment acquired in the Bank of Italy during the period (+€3.8 million);
  - an increase in net other operating income (+€16.2 million), mainly attributable to an increase in revenues from the services rendered to the affiliated mutual banks for Class 1 services (from €30 million to €33 million), Class 2 services (+ €5.9 million from €20.6 million to €26.5 million) and planning services (+ €2.5 million from €12.5 million to €15.0 million).
- reduction in losses recognized on controlling interests (-€37.6 million). Compared with the impairment losses recorded in the year-earlier period on the investments held in Iccrea BancaImpresa and Banca Sviluppo (-€25.5 million), a gain was recognized on the sale of the investment held in Satispay (+€12 million);

- the increase of €32 million of operating expenses, which totaled €264.8 million in the period, was mainly attributable to: (i) an increase in personnel expenses (+€9.6 million, from €92.0 million to €101.6 million) was largely attributable to the joint effect of the acquisition of personnel from Iccrea BancaImpresa (following the reorganization of the "Corporate" lending operations) and the further expansion of the workforce, only partially offset by the transfer on July 1, 2020 of personnel in the IT operations ceded to BCC Sistemi Informatici; and (ii) an increase in other administrative expenses (+€30.8 million, from €130.7 million to €161.5 million), reflecting the billing of IT services by BCC Sistemi Informatici (€23.5 million, to be considered together with the reduction in costs deriving from the transfer of personnel and recoveries from the affiliates for projects with an IT impact) and the costs relating to the services provided to the mutual banks transferred by Iccrea BancaImpresa regarding MCC servicing (€6 million, although these were recouped), only partially offset by a decrease in the Resolution Fund (BRRD) contribution (-€2 million);
- an increase in impairment losses on loans (+€7 million), reflecting provisions on the loan portfolio acquired from Iccrea BancaImpresa, with an increase in net provisions mostly on stage 3 positions.

ASSETS HELD FOR SALE – ELECTRONIC MONEY BUSINESS UNIT

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

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

The decision to establish a dedicated legal entity to manage the e-money business is, in fact, oriented towards the achievement of: a) a possible expansion of the reference market; b) greater organizational and operational flexibility functional to the characteristics of the market; c) an improvement in time-to-market due to the convergence and centralization of all functional and technological components; and d) greater consistency in the management of capital absorption with respect to the specific business.

The transferred division consists of the set of assets and liabilities relating to Iccrea Banca's current electronic money business, including the employees, assets, and other legal relationships pertaining to it. The performance and financial position of the e-money division is shown below.

Balance sheet

€/thousands	30/06/2021	31/12/2020
Financial assets measured at amortized cost	601	580
Intangible assets	2,794	3,380
Other assets	207,576	185,472
Total assets	**210,971**	**189,432**

€/thousands	30/06/2021	31/12/2020
Financial liabilities measured at amortized cost – Due to customers	113,369	108,728
Other liabilities	83,683	59,426
Post-employment benefits	426	465
Provisions for risks and charges	2,453	2,194
Profit/(loss) for the period (+/-)	11,040	18,619
Total liabilities and equity	**210,971**	**189,432**

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

Income statement

€/thousands	30/06/2021	30/06/2020
Fee and commission income	178,770	150,656
Fee and commission expense	(134,369)	(112,838)
Net fee and commission income	**44,401**	**37,818**
Gross income	**44,401**	**37,818**
Net income/(loss) from financial operations	**44,401**	**37,818**
Administrative expenses:	(35,318)	(31,031)
a) personnel expenses	*(3,064)*	*(2,820)*
b) other administrative expenses	*(32,254)*	*(28,210)*
Net provisions for risks and charges	(257)	(289)
b) other net provisions	*(257)*	*(289)*
Net losses/recoveries on impairment of loans and other transactions	-	(3)
Net writedowns/writebacks of property, plant and equipment	-	(1)
Net writedowns/writebacks of intangible assets	(464)	(341)
Other operating expenses/income	7,223	8,146
Operating expenses	**(28,816)**	**(23,519)**
Profit/(loss) before tax on continuing operations	**15,585**	**14,299**
Income tax expense	**(4,545)**	**(4,052)**
Net profit/(loss) for the period	**11,040**	**10,248**

REFERRALS TO OTHER PARTS OF THE FINANCIAL STATEMENTS

This separate report on operations only includes comments on developments in Parent Company operations. For all other information required under the provisions of law and regulations, reference should be made - in the context of the discussion of the specific issues – to the notes to these individual financial statements or to the consolidated financial statements and the related report on operations.

In particular, please see to the notes to these separate financial statements with regard to:

- information on the Bank's transactions with related parties, which are reported in Part H;
- information on financial and operational risks, which are discussed in Part E;
- information on capital, which is reported in Part F.

Readers should instead consult the report on operations in the consolidated financial statements with regard to:

- information on the main risks and uncertainties;
- events subsequent to the balance sheet date and the outlook for operations.

Finally, please consult the report on operations in the consolidated financial statements for more information on the main characteristics of the risk management and internal control systems with regard to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Financial Intermediation.

SEPARATE FINANCIAL STATEMENTS

BALANCE SHEET

Assets		30/06/2021	31/12/2020
10.	Cash and cash equivalents	237,393,003	209,427,984
20.	Financial assets measured at fair value through profit or loss	1,341,169,791	1,335,469,718
	a) financial assets held for trading	475,059,127	573,876,461
	b) financial assets designated as at fair value	334,981,360	363,255,123
	c) other financial assets mandatorily measured at fair value	531,129,304	398,338,133
30.	Financial assets measured at fair value through other comprehensive income	452,225,277	311,207,037
40.	Financial assets measured at amortized cost	47,665,077,152	47,485,059,511
	a) due from banks	30,681,203,234	33,192,774,434
	b) loans to customers	16,983,873,919	14,292,285,077
50.	Hedging derivatives	3,106,086	8,710,139
60.	Value adjustments of financial assets hedged generically (+/-)	873,284	1,157,992
70.	Equity investments	1,335,510,660	1,206,206,868
80.	Property, plant and equipment	3,465,457	3,513,953
90.	Intangible assets	893,224	2,127,456
100.	Tax assets	64,693,310	91,859,287
	a) current	51,099,439	62,357,835
	b) deferred	13,593,871	29,501,452
110.	Non-current assets and disposal groups held for sale	210,971,473	189,432,272
120.	Other assets	305,657,557	114,985,436
	Total assets	**51,621,036,275**	**50,959,157,653**

Liabilities and shareholders' equity		30/06/2021	31/12/2020
10.	Financial liabilities measured at amortized cost	48,234,471,607	47,707,808,743
	a) due to banks	37,903,466,274	33,889,854,635
	b) due to customers	7,041,249,402	9,631,948,553
	c) securities issued	3,289,755,931	4,186,005,555
20.	Financial liabilities held for trading	453,555,558	563,511,152
30.	Financial liabilities designated as at fair value	336,289,210	340,957,044
40.	Hedging derivatives	121,969,080	173,821,352
60.	Tax liabilities	1,509,915	1,173,410
	b) deferred	1,509,915	1,173,410
70.	Liabilities associated with assets held for sale	199,931,563	170,812,935
80.	Other liabilities	508,667,162	332,159,604
90.	Employee termination benefits	15,454,677	16,179,392
100.	Provisions for risks and charges:	28,278,831	21,866,555
	a) commitments and guarantees granted	18,104,740	69,648
	c) other provisions for risks and charges	10,174,091	21,796,907
110.	Valuation reserves	47,805,706	38,050,327
140.	Reserves	184,809,663	252,485,541
150.	Share premium reserve	6,081,405	6,081,405
160.	Share capital	1,401,045,452	1,401,045,452
180.	Net profit (loss) for the period (+/-)	81,166,445	(66,795,259)
	Total liabilities and shareholders' equity	**51,621,036,275**	**50,959,157,653**

INCOME STATEMENT

		30/06/2021	30/06/2020
10.	Interest and similar income	237,045,171	147,292,067
	of which: interest income calculated using effective interest rate method	162,662,381	78,874,329
20.	Interest and similar expense	(148,800,432)	(112,285,880)
30.	**Net interest income**	**88,244,739**	**35,006,188**
40.	Fee and commission income	53,197,697	37,778,581
50.	Fee and commission expense	(8,849,054)	(10,903,731)
60.	**Net fee and commission income (expense)**	**44,348,643**	**26,874,850**
70.	Dividends and similar income	27,864,755	37,041,098
80.	Net gain (loss) on trading activities	10,003,338	7,581,139
90.	Net gain (loss) on hedging activities	210,197	(2,107,197)
100.	Net gain (loss) on the disposal or repurchase of:	54,681,620	48,964,141
	a) financial assets measured at amortized cost	53,080,154	47,942,227
	b) financial assets measured at fair value through other comprehensive income	1,657,207	651,701
	c) financial liabilities	(55,741)	370,213
110.	Net gain (loss) on financial assets and liabilities measured at fair value through profit or loss	(3,256,415)	(11,351,912)
	a) financial assets and liabilities designated as at fair value	(1,477,003)	(1,491,069)
	b) other financial assets mandatorily measured at fair value	(1,779,411)	(9,860,844)
120.	**Gross income**	**222,096,877**	**142,008,307**
130.	Net losses/recoveries for credit risk in respect of:	(18,177,287)	(11,214,548)
	a) financial assets measured at amortized cost	(18,708,988)	(9,329,610)
	b) financial assets measured at fair value through other comprehensive income	531,702	(1,884,939)
150.	**Net income (loss) from financial operations**	**203,919,590**	**130,793,759**
160.	Administrative expenses:	(227,679,911)	(153,181,724)
	a) personnel expenses	(98,481,670)	(81,297,966)
	b) other administrative expenses	(129,198,241)	(71,883,758)
170.	Net provisions for risks and charges	8,540,748	(498,512)
	a) commitments and guarantees granted	8,794,058	(40,908)
	b) net provisions for other risk and charges	(253,309)	(457,604)
180.	Net adjustments of property plant and equipment	(1,054,218)	(793,289)
190.	Net adjustments of intangible assets	(237,136)	(280,912)
200.	Other operating expenses/income	87,839,923	68,130,713
210.	**Operating expenses**	**(132,590,593)**	**(86,623,725)**
220.	Profit (loss) from equity investments	12,011,467	(25,540,084)
260.	**Profit (loss) before tax on continuing operations**	**83,340,464**	**18,629,950**
270.	Income tax expense from continuing operations	(13,213,928)	5,386,777
280.	**Profit (loss) on continuing operations after tax**	**70,126,536**	**24,016,727**
290	Profit (loss) on discontinued operations after tax	11,039,909	(30,224,063)
300.	**Profit (loss) for the period**	**81,166,445**	**(6,207,336)**

STATEMENT OF COMPREHENSIVE INCOME

		30/06/2021	30/06/2020
10.	**Net profit (loss) for the period**	**81,166,445**	**(6,207,336)**
	Other comprehensive income net of taxes not recyclable to profit or loss	**3,925,812**	**(5,043,718)**
20.	Equity securities designated as at fair value through other comprehensive income	3,928,933	(5,038,302)
70.	Defined benefit plans	(3,121)	(5,417)
	Other comprehensive income net of taxes recyclable to profit or loss	**5,829,568**	**925,671**
120.	Cash flow hedges	6,973,977	270,645
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(1,144,409)	655,026
170.	**Total other comprehensive income net of taxes**	**9,755,380**	**(4,118,048)**
180.	**Comprehensive income (item 10+170)**	**90,921,825**	**(10,325,384)**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT JUNE 30, 2021

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2020	Change in opening balance	As at 1/1/2021	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 own shares	Stock options	Comprehensive income at 30.6.2021	Shareholders' equity 30.6.2021
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	252,485,541	-	252,485,541	(66,795,259)	X	(880,619)	-	-	X	-	X	X	X	X	184,809,663
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	38,050,326	-	38,050,326	X	X	-	X	X	X	X	X	X	X	9,755,380	47,805,706
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	-	X	-	X	X	X	-	-	X	X	X	X	X	X	-
Net profit (loss) for the period	(66,795,259)	-	(66,795,259)	66,795,259	-	X	X	X	X	X	X	X	X	81,166,445	81,166,445
Total shareholders' equity	**1,630,867,465**	**-**	**1,630,867,465**	**-**	**-**	**(880,619)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**90,921,825**	**1,720,908,671**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT JUNE 30, 2020

				Allocation of net profit of previous year		Change in the period									
							Equity transactions								
	As at 31/12/2019	Change in opening balance	As at 1/1/2020	Reserves	Dividends and other destinations	Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividends	Extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 30.6.2020	Shareholders' equity 30.6.2020
Share capital:															
a) ordinary shares	1,401,045,452	X	1,401,045,452	-	X	X	-	-	X	X	X	X	X	X	1,401,045,452
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	X	X	-
Share premium reserve	6,081,405	X	6,081,405	-	X	-	-	X	X	X	X	X	X	X	6,081,405
Reserves:															
a) earnings	379,938,902	-	379,938,902	(127,416,948)	X	241	-	-	X	-	X	X	X	X	252,522,195
b) other	-	-	-	-	X	-	-	X	X	-	X	-	-	X	-
Valuation reserves	49,447,673	-	49,447,673	X	X	-	X	X	X	X	X	X	X	(4,118,048)	45,329,625
Equity instruments	-	X	-	X	X	X	X	X	X	X	-	X	X	X	-
Treasury shares	(4,607,698)	X	(4,607,698)	X	X	X	-	-	X	X	X	X	X	X	(4,607,698)
Net profit (loss) for the period	(127,416,948)	-	(127,416,948)	127,416,948	-	X	X	X	X	X	X	X	X	(6,207,336)	(6,207,336)
Total shareholders' equity	**1,704,488,787**	**-**	**1,704,488,787**	**-**	**-**	**241**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10,325,384)**	**1,694,163,644**

STATEMENT OF CASH FLOWS: INDIRECT METHOD

	30/06/2021	30/06/2020
A. OPERATING ACTIVITIES		
1. Operations	**(14,600,596)**	**(14,876,280)**
- net profit (loss) for the period (+/-)	81,166,445	(6,207,336)
- gains (losses) on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	17,362,371	12,430,581
- gains (losses) on hedging activities (-/+)	(210,197)	2,107,388
- net losses/recoveries on impairment (+/-)	18,177,287	11,337,865
- net adjustments of property plant and equipment and intangible assets (+/-)	1,291,354	1,074,201
- net provisions for risks and charges and other costs/revenues (+/-)	(25,100,171)	23,658,597
- taxes, duties and tax credits to be settled (+/-)	(14,548,969)	(5,301,949)
- other adjustments (+/-)	(92,738,716)	(53,975,628)
2. Net cash flows from/used in financial assets	**(425,121,328)**	**(7,789,290,374)**
- financial assets held for trading	85,344,959	(82,920,661)
- financial assets designated as at fair value	26,359,520	(21,014,643)
- other assets mandatorily measured at fair value	(134,872,885)	(3,286,124)
- financial assets measured at fair through other comprehensive income	(137,702,014)	(535,687,686)
- financial assets measured at amortized cost	(226,594,117)	(6,846,878,529)
- other assets	(37,656,791)	(299,502,730)
3. Net cash flows from/used in financial liabilities	**561,583,803**	**7,641,548,961**
- financial liabilities measured at amortized cost	509,067,790	7,586,527,321
- financial liabilities held for trading	(110,001,538)	83,657,051
- financial liabilities designated as at fair value	(4,222,480)	(86,626,922)
- other liabilities	166,740,031	57,991,511
Net cash flows from/used in operating activities (A)	**121,861,879**	**(162,617,693)**
B. INVESTING ACTIVITIES		
1. Cash flows from	**24,401,186**	**36,741,468**
- dividends on equity investments	23,404,091	36,741,468
- sale of intangible assets	997,096	-
2. Cash flows used in	**(118,298,047)**	**(29,595,543)**
- purchases of equity investments	(117,292,325)	(19,959,951)
- purchases of property plant and equipment	(1,005,722)	(735,660)
- purchases of intangible assets	-	(8,899,932)
Net cash flows from/used in investing activities (B)	**(93,896,861)**	**7,145,924**
C. FINANCING ACTIVITIES		
Net cash flows from/used in financing activities C(+/-)	**-**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (D)=A+/-B+/-C	**27,965,019**	**(155,471,768)**

RECONCILIATION

	30/06/2021	30/06/2020
Cash and cash equivalents at beginning of period (E)	209,427,984	246,136,800
Net increase/decrease in cash and cash equivalents (D)	27,965,019	(155,471,768)
Cash and cash equivalents at end of period (G)=E+/-D+/-F	**237,393,003**	**90,665,031**

Key
(+) generated
(-) used in

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

SECTION 1 – DECLARATION OF CONFORMITY WITH INTERNATIONAL ACCOUNTING STANDARDS

In compliance with the provisions of Legislative Decree 38 of February 28, 2005, the separate interim financial statements of Iccrea Banca have been prepared in condensed form and in accordance with the recognition and measurement criteria of the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the related interpretations of the International Financial Reporting Interpretations Committee (IFRS-IC), endorsed by the European Commission and in force as of the reporting date.

The IASs/IFRSs have also been applied in accordance with the "Conceptual Framework for Financial Reporting" (the Framework), with particular regard to the key principle of the prevalence of substance over form, as well as the concepts of relevance and materiality of information.

These interim financial statements are in conformity with the provisions of IAS 34 Interim Financial Reporting and have been prepared using the format and main schedules provided for in Circular no. 262 of December 22, 2005 – 6th update of November 30, 2018 – issued by the Bank of Italy in the exercise of the powers established by Article 43 of Legislative Decree 136/2015, as well as with the Communication of the Bank of Italy of December 15, 2020 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS.

These interim financial statements were prepared using the same accounting standards used to prepare the consolidated financial statements at December 31, 2020.

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, 2021

ENDORSEMENT REGULATION	IAS/IFRS AND SHORT DESCRIPTION	ENTRY INTO FORCE
2097/2020	**Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9** The amendments to IFRS 4 seek to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 Financial Instruments and the date of entry into force of the future IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 (so-called Deferral Approach, Temporary exemption) until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17.	Annual reporting periods beginning on or after January 1, 2021
25/2021	**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform—Phase 2** The amendments provide for specific accounting treatment to distribute changes in the value of financial instruments or leases contracts attributable to the replacement of the benchmark index for determining interest rates over time, thus avoiding immediate repercussions on profit or loss and the unnecessary termination of hedging relationships following the replacement of an interest rate benchmark index.	Annual reporting periods beginning on or after January 1, 2021

The amendments and additions provided for in the endorsed amendments above did not have a material impact on the financial position or performance of the Bank.

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
1080/2021	**Amendments to IFRS 3, IAS 16 and IAS 37 and Annual Improvements to IFRS Standards 2018–2020** The amendments involve limited-scope modifications of three accounting standards and annual improvements to the following accounting standards: – IFRS 1; – IFRS 9; – IFRS 16; – IAS 41.	Annual reporting periods beginning on or after January 1, 2022.
1421/2021	**Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021** The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022.	Annual reporting periods beginning on or after April 1, 2021. Early application is permitted.

To be determined	**Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current** The amendments seek to clarify one of the criteria of IAS 1 for the classification of a liability as non-current, i.e. the requirement that an entity must have the right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The changes: – specify that the right to defer settlement must exist at the end of the reporting period; – clarify that the classification is unaffected by management's intentions or expectations regarding the possibility of exercising the right to defer settlement; – clarify how the terms of a liability impact its classification; and clarify the requirements for the classification of liabilities that an entity intends to settle or could settle with the issue of equity instruments.	Annual reporting periods beginning on or after January 1, 2022
To be determined	**IFRS 17 Insurance contracts** The standard seeks to improve investor understanding of the risk exposure, profitability and financial position of insurers. On June 25, 2020, the IASB published the following amendments to IFRS 17: – a reduction in costs with the simplification of certain requirements of the accounting standards; – the simplification of statements of financial performance; – the deferral of the effective date until 2023.	Annual reporting periods beginning on or after January 1, 2023
To be determined	**Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies** The amendments to IAS 1 are intended to improve disclosure of accounting policies and require companies to disclose material accounting policy information for their financial statements.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted
To be determined	**Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates** The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted
To be determined	**Amendments to IAS 12 (Income Taxes)** The amendments to IAS 12 are intended to specify how to account for deferred tax on transactions such as leases and decommissioning obligations.	Annual reporting periods beginning on or after January 1, 2023. Early application is permitted

The standards and amendments issued by the IASB that have not yet entered force are not expected to have a significant impact on the financial position and performance of the Bank.

SECTION 2 - GENERAL PREPARATION PRINCIPLES

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

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

The interim financial statements were prepared in accordance with IAS 34, applying the recognition and measurement criteria set out in the accounting standards endorsed by the European Commission and described in Part A.2 of these explanatory notes, as well as the general assumptions set out in the Framework for the Preparation and Presentation of Financial Statements issued by the IASB. No exceptions have been made in applying the IASs/IFRSs.

The financial statements and the accompanying notes have been prepared in accordance with Bank of Italy Circular no. 262/2005, as updated to incorporate changes that have been made to the IASs/IFRSs and to rationalize a number of the tables in the notes in order to better reflect the harmonized European supervisory disclosure model forms.

Content of the financial statements and the notes to the financial statements

Balance sheet and income statement

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

Statement of comprehensive income

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

Statement of changes in equity

The statement of changes in equity shows the composition and movements of equity accounts during the reference period and the previous period, broken down by share capital (ordinary and savings shares), earnings reserves, capital reserves and valuation reserves for assets or liabilities and the net profit (loss) for the period. The value of any treasury shares is deducted from shareholders' equity.

Statement of cash flows

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

Content of the notes to the financial statements

The notes to the financial statements contain the disclosures required under the international financial reporting standards, in particular the provisions of IAS 34 Interim Financial Reporting, and those of Circular no. 262/2005 – 6th update of November 30, 2018, as well as with the Communication of the Bank of Italy of December 15, 2020 – Supplement to the provisions of Circular no. 262 "Bank financial statements: formats and rules of preparation" concerning the impact of COVID-19 and the measures to support the economy and amendments of the IAS/IFRS.

SECTION 3 – EVENTS SUBSEQUENT TO THE REPORTING DATE

In the period between the reporting date of the financial statements and their approval by the Board of Directors, no events occurred that would entail a modification of the financial data approved at that meeting.

SECTION 4 – OTHER MATTERS

Consolidated tax mechanism option

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

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 separate financial statements. The formulation of these estimates is based on prior experience, available information, the adoption of assumptions and subjective judgements.

Estimation processes were used to support the carrying amount of some of the largest items recognized in the consolidated financial statements, such as:

- the verification of compliance with the requirements for classifying financial assets in the accounting portfolios that adopt the amortized cost criterion (SPPI test), with particular regard to the performance of the benchmark test;
- the quantification of impairment losses on loans and, more generally, other financial assets;
- the assessment of the appropriateness of the value of equity investments and other non-financial assets;
- 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 determination of discount rates for lease liabilities;
- the quantification of provisions for personnel and provisions for legal and tax risks and charges.

The description of the accounting policies applied to the main financial statement aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements.

In particular:

- for allocation to the three stages of credit risk provided for under IFRS 9 of loans and debt securities classified under financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income and the associated calculation of expected losses, the main estimates regard the determination of the parameters representing a significant increase in credit risk, the inclusion of forward-looking factors in determining PD, EAD and LGD and the determination of future cash flows from impaired loans;
- for the quantification of provisions for risks and charges, the estimation of the amount of outlays necessary to discharge liabilities, taking account of the effective probability of having to employ resources to do so.

For further information concerning the composition and associated carrying amounts of the items affected by these estimates, please see the specific sections in the notes to the financial statements.

By their nature, estimates may vary from year to year and, therefore, it cannot be ruled out that in subsequent years the current values recorded in the financial statements may differ significantly as a result of changes in the subjective assessments employed.

Risks, uncertainties and impacts of the COVID-19 pandemic

The main subjective judgments made by management in assessing the impact of the COVID-19 pandemic are summarized below.

The quantification of impairment losses on loans

A key element of the comprehensive set of actions implemented by the Group for the structural management of the COVID-19 emergency was the effort to revise the credit risk forecasting metrics to factor the conditions associated with the emergency into ordinary valuation processes and, in particular, within the IFRS 9 impairment framework in order to calculate the expected credit loss (ECL) on performing loans.

The great discontinuities in market conditions brought about COVID-19, although lying within the extraordinary uncertainty generated , by the pandemic, especially looking forward, have prompted a number of exceptional in methodology and implementation that have made it possible to incorporate the potential impact of the pandemic into the impairment model, with specific regard to the inclusion of risk metrics for forecasting the main financial and macroeconomic variables contained in the new economic scenarios prepared by external providers and supervisory authorities.

At the same time, the introduction of measures to support customers and the economy, with a particular emphasis on actions taken by the Group in relation to applicable legislative measures enacted in Italy (Decree Law 18 of March 17, 2020, the “Cure Italy Decree”, and Decree Law 23 of April 8, 2020, the “Liquidity Decree”), the measures agreed with industry association and the initiatives undertaken by individual organization led to the introduction of further methodological changes to the IFRS 9 impairment framework in order to take account of the impact of the emergency in calculating expected credit losses.

More specifically, the measures to adapt the impairment framework to incorporate the effects of the COVID-19 pandemic in the calculation of expected credit losses included:

- the use of forecast scenarios updated in response to developments in macroeconomic conditions. In particular, in order to enable the adaptation of the IFRS 9 methodological framework to the pandemic, the difficulty of modeling its peculiar characteristics using ordinary tools (satellite models) prompted the use of forward-looking projection metrics (implicit multipliers) to be applied to the risk parameters (PD, LGD) estimated on the basis of the forecast values of the exogenous macroeconomic variables provided by our external provider (Prometeia), differentiated by type of counterparty, sector of economic activity and geographical area;
- the management of the impacts related to the implementation of customer support measures, with particular regard to loan payment moratoriums and measures to support the liquidity of companies. More specifically, loan moratoriums were managed by adapting automatic staging mechanisms (e.g. halting the count of days past due) in order to make the stage allocation criteria consistent with application of the support measures, considering at the same time an appropriate degree of prudence in the assessment of these positions in the light of the evolution of market conditions and the expectations of the supervisory authorities in this regard. The handling of measures to support liquidity called for the application of coverage levels set to take account of the mitigating effects on credit risk of the specific guarantees to support operations in this area.

These exceptional changes to the IFRS 9 impairment framework in response to COVID-19 were introduced in concert with the ordinary maintenance of the estimation models planned prior to the pandemic, thereby lending continuity to the updating and fine-tuning of the risk parameters (PD and LGD) used to calculate ECL within the IFRS 9 framework, in line with applicable financial reporting standards. These updates over the course of the year led to the development of a version of the models and measurements of the related parameters that are more stable and more accurate in measuring the characteristics of risk typical of the loan portfolios of the affiliated banks and of the Group as a whole.

Impairment testing of equity investments

In compliance with IAS 36, at each reporting date, the Bank verifies that there is no objective evidence that the carrying amounts of equity investments is not recoverable.

In the financial statements at December 31, 2020, the valuation techniques adopted to determine recoverable value were applied on the basis of the data and results of the most recently approved corporate strategic plan, appropriately revised - in particular with regard to the volume of funding and lending, fees and commissions, the cost of risk and forward looking profitability - to take account of the impact of the COVID-19 pandemic and the initiatives and measures implemented by the Group companies in this area.

The monitoring of the main impairment indicators for equity investments performed as at June 30, 2021 did not reveal any evidence of a potential reduction in the value of these assets and it was therefore not necessary to re-estimate the recoverable value or recognize any impairment losses.

Probability testing of DTAs

The recovery of the DTAs pursuant to Law 214/2011 is certain under the provisions of the law and does not take account of the profit generating capacity of the Bank.

DTAs other than those referred to in Law 214/2011 are recognized to the extent that their recovery is probable.

In this regard, the conditions underlying the probability test performed on the occasion of the financial statements at December 31, 2020 (e.g., business plans) remain unchanged. Please see the notes to the 2020 financial statements for more information on the probability testing conducted.

Contract modifications resulting from COVID-19

Contract modifications and derecognition (IFRS 9)

In light of the severity of the COVID-19 health emergency and its inevitable social and financial repercussions, the Italian government launched a range of financial support measures for the economy (especially for small and medium-sized enterprises, which constitute the backbone of the country's economy). The main authorities, bodies and standard setters at both the national and EU levels developed various support measures for the European banking system in order to support the economies of the areas affected by the emergency.

Since the beginning of the emergency, the Bank has adopted an articulated series of measures aimed at facilitating a prompt response to customer needs, working promptly in acknowledging and, where necessary, adapt to the initiatives undertaken by the various national and European Authorities, with the aim of facilitating as much as possible the timely activation of the support measures gradually defined.

In this context, they:

- streamlined loan-origination processes and the acceptance of applications by customers given the exceptional nature of this period, while also preserving the principle of sound and prudent credit management;
- enhanced the constant monitoring and control of the measures granted;
- maintained and reinforced the principle of the separation of roles as governed by Group policies with regard to the granting and execution of credit and the close observation of borrowers who had already shown anomalies prior to the pandemic, while assessing the resilience of exposures and the validity of the management strategies undertaken.

The most recent EBA intervention in this regard in 2020 was that of 2 December concerning the updating of the guidelines that banks must apply to legislative or non-legislative moratoriums on the repayment of existing loans. These guidelines were then reflected in the ABI renewals of the initiatives to suspend payments on mortgages and loans already governed by specific agreements with industry and consumer associations.

These last guidelines must first be framed within the context of the effort undertaken by the authorities since the beginning of the pandemic to develop a regulatory framework consisting of certain yet flexible rules for the various forms of payment moratorium available to banks to support their customers. The main stages of this effort are as follows.

The European Banking Authority (EBA) first intervened specifically in this area with a document issued on March 25, 2020 entitled "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures", which addressed the accounting (and prudential) issues relating to the potential reclassification of loans prompted by public or industry-based moratoriums and by other forms of support adopted in response to the pandemic.

The EBA specified that since public or industry-based moratorium measures granted in response to the pandemic were intended to mitigate systemic risks and not specific needs of individual obligors, they should not automatically lead to reclassification under the definition of "forbearance" of loans benefiting from such measures nor should they automatically lead to prudential classification of positions as non-performing for the purposes of IFRS 9 (and therefore of migration between risk stages).

That said, the EBA also emphasized that, even in these specific circumstances, banks were still required to assess the creditworthiness of obligors who benefit from a moratorium and, consequently and possibly, reclassify obligors whose creditworthiness has deteriorated.

In performing such assessments - which could affect a wide range of borrowers - banks must avoid mechanistic assessments and prioritize analyses using risk-based approaches. Furthermore, in the period directly after the moratorium, institutions should nevertheless pay particular attention to those exposures which experience delays in payments or other signs of deterioration in creditworthiness.

On April 2, 2020, the EBA also published the document "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in the light of the COVID-19 crisis", which sets out detailed guidelines for public and private loan repayment moratoriums applied by September 30, 2020 (extending the time limit from the original June 30, 2020 deadline, as per the EBA decision published on June 18, 2020), so that positions are not classified as exposures subject to forbearance measures or a distressed restructuring. The guidelines also establish that entities must continue to promptly identify situations of possible financial difficulty of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to the moratorium measures imposed ex lege and those initiated by private actors that are of "general" scope, i.e. have been granted by banks in order to prevent systemic risk through the provision of broad support for all companies temporarily in difficulties due to the pandemic. In this regard, the guidelines set out a series of conditions that must all be met for a moratorium measure to be considered of general scope:

- the moratorium must be based on national law or private initiative. In this case, the moratorium must be broadly applied within the banking sector in order to ensure the uniformity of moratoriums granted by the various credit institutions;
- the moratorium has to apply to a broad range of obligors, determined on the basis of general criteria, such as belonging to a certain type of customer segment (retail, SMEs, etc.), location in one of the areas most affected by the pandemic, the type of exposure (mortgage loans, leases, etc.), or belonging to a particularly affected industry sector, etc.;
- the moratorium must only change the schedule of payments and, therefore, temporarily suspend, postpone or reduce principal and/or interest payments. The moratorium, therefore, cannot involve the modification of other loan conditions (such as the interest rate);
- the moratorium must offer the same conditions to all those who benefit from it;
- the moratorium must not apply to loans granted after the launch of the moratorium;
- the moratorium must have been launched in response to the COVID-19 pandemic and applied before June 30, 2020 (the deadline was extended to September 30, 2020 as per the EBA decision published on June 18, 2020).

Moratoriums granted in response to the COVID-19 pandemic impact the identification and reporting of past due amounts, as the counting of days past due takes account of the suspension of payments. Consequently, such measures should lead to a short-term reduction in the classification of exposures as non-performing as a result of the suspension of the deadlines for counting days past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" of January 18, 2017 established, in relation to moratoriums granted under the provisions of law, that exercising the option to suspend the calculation of days past due during the period of covered by the moratorium, thereby extending the normal period of 90 days, should be assessed as a possible indicator of unlikeliness to pay.

The EBA guidelines of April 2, 2020 referred to above equate moratoriums granted on a private basis in response to COVID-19 to public moratoriums. Consequently, the former also benefit from the interruption of the counting of days past due as long as they comply with the requirements set out in the EBA guidelines. The EBA reiterates that the concessions granted in response to COVID-19, in cases of substantial invariance of the present value of the cash flows following the contract modification, shall not to be considered distressed restructuring, do not involve the transition to default and represent temporary relief for those who are unable to fulfill their contractual obligations due to business disruptions caused by the pandemic.

The EBA emphasizes that the banks shall in any case to evaluate the possible classification of customers benefiting from the moratoriums as unlikely to pay for the purpose of the definition of default, considering the obligor's ability to meet the new payment plan (regardless of any public guarantee) and excluding the automatic classification of these loans as distressed restructurings.

In this regard, the EBA recognizes that there may be difficulties in carrying out individual assessments for the purposes of classification of positions as non-performing. In this case, banks must adopt a risk-based approach (i.e., taking account of, for example, the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hotels, retail trade). Therefore, it will be important to identify, after the end of COVID-19 moratoriums, those exposures that present payment delays with respect to the new repayment schedules for the purpose of promptly classifying them as non-performing.

If it meets the requirements indicated above, loans benefiting from the application of a moratorium scheme should not be considered subject to a "forbearance measure" unless they were already benefiting from forbearance at the time of application of the moratorium itself.

On September 21, 2020, the EBA announced that it would not extend the date of September 30, 2020 for the expiry of the extraordinary flexibility measures granted to banks concerning the prudential treatment of moratoriums granted in response to the COVID-19 pandemic, specifying that there should be no automatic reclassification of positions requesting the moratorium by September 30, 2020 for the entire period of suspension of payments.

For the exposures for which a legislative or industry-sponsored moratorium was granted by the banks in the period between September 30 and December 31, 2020, the current rules on the prudential treatment of forbearance measures should apply.

In particular:

- unlike during the period covered by the flexibility granted by the EBA, banks should assess an applicant's possible financial difficulties in settling payments falling due. In case of difficulty, the position affected by the concession measure should be classified as forborne, even in the case of a legislative moratorium;
- in the case of a legislative moratorium, the rules on the definition of default already mentioned provide for a suspension of the count of 90 days of past due payments to classify the company as in default.

As noted earlier, the continuation of the COVID-19 pandemic, taking account of the monitoring of the developments of the pandemic, in

particular the impact of the second wave and the consequent new restrictions imposed by many European governments, prompted the EBA to reactivate its guidelines. In particular, in the second amendment of December 2, 2020, the EBA established that for the purposes of the those guidelines, the overall period within which the payment schedule of a given loan agreement is amended in accordance with paragraph 10(c) of the guidelines following the application of general payment moratoriums should not exceed nine months. However, this nine-month maximum limit does not apply to changes in payment schedules agreed for loans granted before September 30, 2020 under a general payment moratorium if the total duration of the changes exceeds nine months.

The Bank, separately for positions that had already benefited from previous moratoriums compared with those that had never benefited, and for legislative and industry moratoriums with respect to those granted independently by the Bank that did not meet the general requirements governed by the EBA Guidelines, has adapted the operational guidelines for the application of the new regulatory regime.

That said, with regard to the accounting treatment (derecognition versus modification), as part of the aforementioned support measures, the Bank has identified and adopted, among others, the following main lines of action:

- suspending installments and/or extending the maturity of installment transactions, in application of both legislative rules and ABI moratoriums;
- extending the maturity of existing advances;
- granting new medium/long-term loans for borrowers' working capital needs, giving preference, where applicable, the use of eligible guarantees (MCC in particular) and the "consolidation" operations envisaged by the Liquidity Decree.

Measures to suspend payments and/or extend the maturity of installment transactions or extend the maturities of advances, when granted, involve a modification of the original contract conditions and can be construed as contractual modifications of financial assets, which under IFRS 9 calls for verification of whether the circumstances permit the asset to continue to be recognized in the financial statements or, conversely, require that the original instrument be derecognized and a new financial instrument be recognized.

As reiterated a number of times in the EBA and ESMA statements cited earlier, these contract modifications must be granted in response to COVID-19 in order to offer broad support to all companies and individuals temporarily in difficulty due to the pandemic in order to prevent systemic risk.

Note that the operational procedures for granting COVID-19 provide for the application of interest to the entire residual liability. This approach implies substantial actuarial neutrality, as also provided for in the Government's explanatory report to the Cure Italy Decree and the EBA statement of April 2, 2020, thus avoiding significant accounting impacts.

The contract modifications in question do not affect the original contractual characteristics and flows of the loans and consequently they do not require derecognition.

Amendment of IFRS 16

On May 28, 2020, the IASB published the amendment to IFRS 16 "COVID-19 Related Rent Concessions", endorsed with Regulation (EU) no. 1434/2020, with application of the amendment for financial statements for periods on or after June 1, 2020, with early application permitted. The amendment, which was taken in response to the COVID-19 crisis, allows lessees not to account for temporary reductions and/or suspensions of rent payments granted for the period from the beginning of the pandemic to June 30, 2021 as a direct consequence of COVID-19 as a "lease modification". On the basis of the provisions of IFRS 16, in the event of a change in the original contractual conditions of a lease, it would be necessary to modify the amortization plan of the lease ("lease modification") with consequent recalculation of the liability. The amendment of IFRS 16 makes it possible, as a practical expedient, to treat the unpaid rent as a variable payment, to be recognized as a reduction in costs in the profit or loss, without necessarily having to recalculate the financial liability.

The Commission Regulation (EU) 2021/1421 of August 30, 2021 was published in *Official Journal* L 305 of August 31, 2021, endorsing "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)". Companies shall apply the amendments starting from April 1, 2021 for annual reporting periods beginning on or after January 1, 2021. The amendment to IFRS 16 extends the operational, optional and temporary concessions connected with the COVID-19 pandemic granted to lessees involving the reduction of payments originally due on or before June 30, 2021 to include concessions involving the reduction of payments originally due on or before June 30, 2022. In other words, the termination of the period of application of the amendments to IFRS 16 (paragraphs 46A and 46B) has been extended from June 30, 2021 to June 30, 2022, permitting a number of simplifications in accounting for lease concessions granted in connection with Covid-19, such as the suspension or reduction of lease payments.

The Bank has not requested any reduction or suspension of rents and, therefore, has not made use of the practical expedient provided for in this amendment.

Other issues

The separate interim financial statements have undergone a limited audit by Mazars Italia SpA, which was engaged for this purpose for the period 2021-2029 in execution of the shareholders' resolution of May 28, 2021.

A.2 – THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section sets out the accounting policies adopted in preparing the financial statements. The presentation of these accounting policies is broken down into stages – classification, recognition, measurement and derecognition - for the various asset and liability items. A description of the impact on profit or loss, where material, is provided for each stage.

Classification of financial assets

Financial assets are classified in the categories envisaged by IFRS 9 on the basis of both of the following elements:

- the business model used to manage the financial assets;
- the characteristics of the contractual financial flows of the financial asset (the "SPPI test" - Solely Payments of Principal and Interest).

If the business model is identified as hold to collect and the asset passes the SPPI test, the asset is recognized at amortized cost (AC).

If the business model is identified as hold to collect and sell and the asset passes the SPPI test, the asset is recognized at fair value through other comprehensive income (FVTOCI).

Finally, if the business model differs from those specified above or the asset does not pass the SPPI test in both of the two previous cases, the asset is recognized at fair value through profit or loss (FVTPL).

The business model

IFRS 9 identifies three different business models, which in turn reflect the ways in which financial assets are managed:

- "Hold to collect": this includes financial assets held with the objective of collecting contractual cash flows, retaining the financial instrument to maturity, with the exception of sales permitted under Group policies in line with IFRS 9;
- "Hold to collect and sell": this includes financial assets held with the aim of both collecting contractual cash flows over the life of the assets and the proceeds from the sale of those assets;
- "Other": this is a residual business model that includes financial instruments that cannot be classified in the previous categories, mainly represented by financial assets held for the purpose of generating cash flows through sale.

The business model does not depend on management's intentions for each individual instrument, but is determined at a higher level of aggregation. It is therefore possible for an entity to adopt more than one business model in managing financial instruments, including in respect of the same financial asset. For example, a tranche of a security could be purchased as part of a hold to collect business model, while a second tranche of the same instrument could be acquired both to collect the contractual cash flows and to sell it (HTCS). The assessment of which business model has been adopted is based on reasonably possible scenarios and not on scenarios that unlikely to occur (such as "worst case" or "stress case" scenarios), taking account, among other things, of the way in which:

- the performance of the business model and the assets at initial recognition are evaluated by key management personnel;
- risks that impact the performance of the business model and the assets involved in initial recognition are managed;
- the managers of the business are remunerated.

From an operational point of view, the Iccrea Group identifies the business models used to manage financial assets in accordance with its own judgment, as governed by internal rules. The assessment is not determined by a single factor or activity, but rather by considering all the relevant information available at the assessment date, ensuring ongoing consistency with strategic and operational planning. In this sense, the business models of the Iccrea Group are identified on the basis of the granularity of the portfolio and the level of definition of the business, identifying key managers in accordance with the provisions of IAS 24, the nature of the products and type of underlying asset, the methods for evaluating performance and how these are reported to key management, the risks that impact the business accounting model and how these risks are managed, manager remuneration arrangements and the volume of sales.

With specific reference to the "hold to collect" model, according to IFRS 9, the sale of a debt instrument or a loan does not itself determine the business model. In fact, an HTC business model does not necessarily imply that an instrument will be held to maturity and the standard itself

offers examples of sales deemed admissible within this model. Accordingly, the Iccrea Group's policies govern the types of sale considered consistent with this model, as in the case of sales made in response to an increase in the credit risk of the counterparty.

Specifically, sales that have occurred as a result of the following circumstances are considered consistent with this business model:

- in the case of an increase in credit risk and, more specifically:
  - on the basis of developments in CDS spreads with regard to the securities portfolio, taking due account of all reasonable and supportable information concerning forecasts, approved/authorized as appropriate;
  - on the basis of the staging indicator for the loan portfolio;
- in the case of sales that occur near the maturity date, i.e. when they approximate the cash flows that would be generated obtained by not selling the security;
- to manage structural liquidity in order to respond to extreme liquidity situations;
- when the sales are frequent but not material in value terms or are occasional even if material in value terms. Frequency and materiality thresholds have been specified to determine those aggregates:
  - frequency is defined as the number of trading days considered in the period considered;
  - materiality is defined as the percentage ratio between the nominal value of sales and the total nominal value of the instruments held in the portfolio during the period considered.

In cases where both frequency and materiality thresholds are exceeded, an assessment must be conducted to determine compliance with the requirements of the business model identified.

The SPPI test

In order to determine whether a financial asset can be measured at amortized cost or at fair value through other comprehensive income, it is important to determine whether the contractual cash flows of the asset are represented by solely payments of principal and interest on the principal amount outstanding. Such contractual flows are compatible with a basic lending arrangement, where the consideration for the time value of money and credit risk are typically the most significant elements of interest. However, interest may also include consideration for other risks, such as liquidity risk, and the costs associated with holding the financial asset. Furthermore, interest may also include a profit margin that is compatible with a basic lending arrangement. The principal amount is represented by the fair value of the financial asset at recognition. Contractual terms introducing exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to inverse changes in interest rates, in equity prices or in commodity prices, do not give rise to contractual cash flows that are solely payments principal and interest on the principal amount outstanding. As determined by analysis conducted by the Group, such types of instrument cannot be considered SPPI-compliant and must therefore be measured at fair value through profit or loss.

In some cases, the time value of money element may be modified. That would be the case if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate). When assessing a modified time value of money element, the objective is to determine how different the contractual cash flows could be from the cash flows that would arise if the time value of money element was not modified In these cases, IFRS 9 requires the performance of a "benchmark test", an exercise that involves comparing the interest on the actual instrument, calculated at the contractually specified interest rate, and the interest on the benchmark instrument, calculated using the interest rate that does not contain the change in the time value of money, all other contractual clauses being equal. The benchmark test therefore consists of a comparison between the sum of the undiscounted expected cash flows of the actual instrument and the sum of those for the benchmark instrument. In doing so, we consider only reasonably possible scenarios, therefore excluding stress test scenarios.

Furthermore, for the purposes of the SPPI test, any contractual term that could change the timing or amount of the contractual cash flows (for example, the case of a prepayment option, subordinated instruments or an option to extend the term for payment of principal and/or interest) shall also be considered.

Finally, a contractual cash flow characteristic does not affect the classification of the financial asset if it could only have a de minimis effect on the cash flows. At the same time, if a contractual cash flow characteristic is "not genuine", it does not affect the classification of the financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. To make a determination of the de minimis effect, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument.

From an operational standpoint, the Group has established guidelines for conducting the SPPI test, which represent the methodology adopted by the Group and reflected in its internal rules, so as to be able to represent the benchmark instrument for the performance of the testing by all the functions involved. In this context, with specific reference to the loan portfolio, these guidelines have been implemented in a tool within the Group's application systems that enables the benchmark test to be performed. With specific reference to the securities portfolio, on the other hand, the outcome of the test is provided by a leading sector info-provider, based on the guidelines and methods defined by the Group.

1 – Financial assets measured at fair value through profit or loss

Classification

This category includes financial assets, regardless of their technical form, which are not recognized under financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. More specifically, the category comprises:

- financial assets held for trading, mainly represented by debt securities, equity instruments and the positive value of derivatives held for trading;
- financial assets designated as at fair value, i.e. financial assets so designated at the time of initial recognition and where the appropriate conditions are met. In particular, financial assets are designated as irrevocably measured at fair value through profit or loss if, and only if, doing so eliminates or significantly reduces an accounting mismatch;
- financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortized cost or at fair value through other comprehensive income. These comprise financial assets whose contractual terms do not provide for solely payments of principal and interest on the principal amount outstanding (i.e. that do not pass the SPPI test) or which are not held within the framework of a business model whose objective is the hold assets in order to collecting their contractual cash flows (the hold to collect business model) or to both collect the contractual cash flows and sell the financial assets (the hold to collect and sell business model).

The category therefore includes:

- debt securities and loans that are held as part of an "other" business model or that do not pass the SPPI test;
- equity instruments - that do not represent an interest in subsidiaries, associates or joint arrangements - held for trading or for which the option at the time of initial recognition to designate them as held at fair value through other comprehensive income was not exercised;
- units in collective investment undertakings and derivative instruments.

With regard to derivatives, this item also includes derivatives embedded in a financial liability or in a non-financial contract (the "host contract"). The combination of a host contract and the embedded derivative is a hybrid instrument. In this case the embedded derivative is separated from the host contract and recognized as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the characteristics of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line.

The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk.

Recognition

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

Measurement

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

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

With specific regard to equity instruments not listed on an active market, cost is used as an estimate for fair value only in rare cases in a limited

number of circumstances, i.e. where cost represents the best estimate of fair value among a wide range of fair values, making cost the most significant value, or in cases in which the valuation techniques referred to above are not applicable.

Derecognition

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

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

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

Recognition of income components

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

2 – Financial assets measured at fair value through other comprehensive income

Classification

This category includes financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

The category also includes capital instruments not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income with no recycling to profit or loss of any gains or losses on disposal.

Specifically, the item includes:

- loans and debt securities held with a “hold to collect and sell” business model that pass the SPPI test;
- equity interests - that do not represent an interest in subsidiaries, associates or joint arrangements – not held for trading for which the option was exercised at the time of initial recognition to designate them as held at fair value through other comprehensive income. This includes equity investments intended to strengthen the Group’s commercial presence and extend its reach into business areas in which it is not present. Similarly, this option is exercised for equity instruments that have been acquired for strategic and institutional purposes and are therefore held with no intention of selling them in the short term, representing instead a medium/long-term investment.

Reclassifications are only allowed following a modification of the business model. Such changes are expected to be very infrequent and are determined by the entity’s senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the Bank’s operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at fair value through other comprehensive income to the category of financial assets measured at amortized cost, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. In the event of reclassification to financial assets measured at fair value through profit or loss, the cumulative gain or loss previously recognized in other comprehensive income is recognized though profit or loss.

Recognition

Financial assets measured at fair value through other comprehensive income are initially recognized at the settlement date for debt or equity securities and at the disbursement date for loans.

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

Measurement

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

Equity instruments classified in this category are measured at fair value through other comprehensive income. Unlike other instruments classified here, however, those amounts are not subsequently transferred to profit or loss, even if the instruments are sold (no recycling). Accordingly, the only element associated with the equity instruments recognized through profit or loss is any associated dividends.

Fair value is determined using the criteria adopted for financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income represented by debt securities are assessed for any significant increase in credit risk (impairment) like assets measured at amortized cost, with the consequent recognition through profit or loss of a provision to cover expected loss. More specifically, if at the measurement date no significant increase in credit risk is found compared with the date of initial recognition (stage 1), the 12-month expected loss is recognized. Conversely, the lifetime expected loss is recognized for instruments whose credit risk has increased significantly since initial recognition (stage 2) and for impaired exposures (stage 3). Equity instruments do not undergo impairment testing.

Derecognition

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

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

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

Recognition of income components

Gains and losses from changes in fair value are recognized in a specific equity reserve until the asset is derecognized. The value of interest computed using the effective interest rate method in application of the amortized cost method to assets measured at fair value through other comprehensive income is recognized through profit or loss. The equity reserve representing the cumulative changes in the fair value of equity instruments for which the option to irrevocably designate the instrument as at fair value through other comprehensive income was exercised is not reversed through profit or loss even when the asset is derecognized, while dividends in respect of such instruments are recognized through profit or loss.

In addition to recognizing impairment losses, the cumulative gains and losses recognized in other comprehensive income are recognized through the income statement under item 100 ("Gain (loss) on disposal of financial assets measured at fair value through other comprehensive income") at the time the asset is disposed of. Dividends on an equity instrument are recognized through profit or loss when the right to receive payment is established.

3 – Financial assets measured at amortized cost

Classification

This category comprises financial assets such as loans and debt securities held within a business model whose objective is achieved by collecting contractual cash flows on a financial asset ("hold to collect" business model) that are solely payments of principal and interest on the principal amount outstanding (i.e. they pass the SPPI test).

Reclassifications are allowed only following a modification of the business model. Such changes are expected to be very infrequent and are

determined by the entity's senior management (as identified pursuant to IAS 24) as a result of external or internal changes and must be significant to the bank's operations and demonstrable to external parties. This occurs, for example, when the entity has acquired, disposed of or terminated a business line. The transfer value is represented by the fair value at the time of the reclassification, which takes place prospectively starting from that date. In this case, the effective interest rate is redetermined based on the fair value of the reclassified financial asset at the time of the change and that moment is considered to be the initial recognition date for the purpose of verifying a significant increase in credit risk. In the event of the reclassification of financial assets measured at amortized cost to the category of financial assets measured at fair value through other comprehensive income, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. In the event of reclassification to financial assets measured at fair value through profit or loss, the gain or loss is recognized though profit or loss.

Recognition

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

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

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

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

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

Measurement

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

In certain cases, a financial asset may be considered impaired at initial recognition because its credit risk is very high and, in the case of a purchase, is acquired at a large discount to its value at initial issue.

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

The measurement effects strictly consider the three different credit risk stages provided for in IFRS 9. The stages can be summarized as follows:

- stage 1 and 2 including performing financial assets;
- stage 3 including impaired financial assets.

With regard to the presentation of measurement effects in the accounts, value adjustments of this type of asset are recognized through profit or loss:

- at the time of initial recognition in an amount equal to 12-month expected credit losses;
- at the time of subsequent measurement of the asset where credit risk has not increased significantly since initial recognition in an amount equal to the change in the loss allowance for 12-month expected credit losses;
- 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 (stage 3).

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

If the reasons for the impairment should cease to obtain following an event that occurred subsequent to the recognition of the impairment loss, a writeback is taken to profit or loss. The value of the financial asset after the writeback shall not exceed the amortized cost that the instrument would have had in the absence of the prior writedown. See the section on procedures for determining impairment for more information.

Where these financial assets are classified as measured at amortized cost or at fair value through other comprehensive income, they are classified at initial recognition as "purchased or originated credit impaired" ("POCI") and receive special treatment in terms of impairment, with the recognition of lifetime expected credit losses. In addition, the credit-adjusted effective interest rate is calculated for financial assets identified as POCIs at initial recognition. This rate reflects initial expected losses in estimating cash flows. In using amortized cost method, and the consequent calculation of interest, therefore, this credit-adjusted effective interest rate is therefore used.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognized when the contractual rights to the cash flows expire, are extinguished or a disposal transfers all the risks and rewards connected with ownership to a third party. Conversely, when a prevalent share of the risks and rewards associated with ownership of the financial asset are retained, the asset continues to be recognized even if legal title has been transferred. Where it is not possible to determine whether substantially all the risks and rewards have been transferred, the financial assets are derecognized if no form of control over it is retained. Conversely, where even a portion of control is retained, the asset continues to be recognized to the extent of the continuing involvement in the asset, measured by the exposure to changes in value of the transferred assets and changes in their cash flows.

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

In certain cases, during the course of the life of financial assets, in particular loans, the terms of the contract may be modified from those in force at the time of initial recognition. In these circumstances, the modified terms must be analyzed to determine whether the original assets can continue to be recognized or must instead be derecognized, with the consequent recognition of new modified financial assets. In general, modifications of contractual terms lead to the derecognition of the financial asset and the recognition of a new asset when they are considered to be "substantial", with the recognition in profit or loss of any difference in carrying amounts. In conducting this assessment, qualitative judgments are called for. To this end, the assessment shall consider:

- the reasons for the modifications, distinguishing, for example, between renegotiations carried out for commercial reasons or in response to the counterparty's financial difficulties:
    - transactions carried out with performing counterparties for reasons other than debtor's financial difficulties, and therefore not related to a change in the creditworthiness of the borrower, are considered commercial renegotiations, which have the main objective of adjusting the cost of credit to market conditions. These cases include all renegotiations aimed at maintaining the commercial relationship with the client, and are therefore carried out with the aim of retaining the counterparty, who might otherwise turn to another bank. In this case, these modifications are considered substantial because if they did not occur, the customer could turn to another financial institution, thus causing the bank to lose future revenue;
    - transactions whose objective is to maximize the recoverable value of the loan are considered renegotiations due to financial difficulties of the counterparty, with the creditor therefore willing to accept a restructuring of the debt on terms potentially favorable to the debtor. In these circumstances, it is generally assumed that there has essentially been no extinguishment of the original cash flows that would therefore require derecognition of the original loan. Consequently, these types of renegotiation represent the majority of cases presented in the financial statements through "modification accounting", in which the difference between the

carrying amount and the recalculated value of the financial asset is recognized in profit or loss by discounting the renegotiated or modified cash flows at the original effective interest rate;

- the presence of specific objective elements that substantially modify the characteristics and/or cash flows of the financial instrument, such that they would entail the derecognition of the instrument and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual terms that would cause the asset to fail the SPPI test or a change in the denomination of the currency of the instrument, as the entity would be exposed to a new risk.

Recognition of income components

Gains or losses in respect of financial assets measured at amortized cost are recognized through profit or loss at the time the assets are derecognized or they incur an impairment loss, and through the process of amortizing the difference between the initial carrying amount and the amount repayable at maturity. Interest calculated using the effective interest rate method in application of the amortized cost approach is also recognized through profit or loss.

4 - Hedging

The Iccrea Mutual Banking Group has elected to exercise the option to continue to apply the rules provided for in IAS 39 governing hedge accounting (the “opt-out” option).

Classification

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

The types of hedges used are as follows:

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

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

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

Recognition

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

Measurement and recognition of income components

Hedging derivatives are measured at fair value.

More specifically:

- in the case of fair value hedges, the change in the fair value connected with the hedged risk on the hedged item is offset in profit or loss with the change in the fair value of the hedging instrument, which is also recognized through profit or loss. Any difference between the two changes, which represents the partial ineffectiveness of the hedge, represents the net impact in profit or loss;
- in the case of cash flow hedges, changes in the fair value of the derivative are recognized through equity in the amount of the effective portion of the hedge. They are recognized through profit or loss only when the change in cash flows in respect of the hedge item actually occurs or if the hedge is ineffective.

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

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

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

Effectiveness is measured at every reporting date through:

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

If the tests do not confirm the effectiveness of the hedge, hedge accounting is discontinued in accordance with the above criteria, the hedging derivative is reclassified as a trading instrument and the hedged financial instrument is measured using the criteria normally adopted for instruments of its category. Subsequent changes in the fair value of the derivative are recognized through profit or loss. For cash flow hedges, if the hedged transaction is no longer expected to be carried out, the cumulative gain or loss recognized in the equity reserve is reversed through profit or loss.

5 – Equity investments

Classification

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

Subsidiaries are entities for which the investor has the ability to direct the relevant activities of the entity, by virtue of a legal right or a mere state of fact, and is also be exposed to the variability of the returns deriving from that power.

Under IFRS 10, the requirement of control is met when an investor simultaneously has:

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

Associates comprise companies in which an entity holds, either directly or indirectly, at least 20% of the voting rights or, independently of the proportion of voting rights, companies over which the Group exercises a significant influence, which is defined as the power to participate in determining financial and operating policies, but without exercising either control or joint control.

Joint control is the contractually agreed sharing of control of an arrangement.

Equity interests in subsidiaries, joint ventures and associates held for sale are reported separately in the financial statements as a disposal group and are measured at the lower of the carrying amount and the fair value excluding disposal costs.

Recognition

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

Measurement

Investments in subsidiaries and associates 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 IFRS 9, as provided for financial instruments.

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

Recognition of income components

Impairment losses are recognized in profit or loss.

6 – Property, plant and equipment

Classification

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

Recognition

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

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

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

In the case of recognition of rights of use in respect of leased assets pursuant to IFRS 16, the cost of the right-of-use asset is determined as follows:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A right-of-use asset shall be recognized at the time in which the leased asset effectively becomes available for use.

Measurement

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

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

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

For a right-of-use asset determined in compliance with IFRS 16, after the initial recognition of the asset, a lessee shall measure the right-of-use asset applying a cost model in accordance with IAS 16.

Derecognition

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

Recognition of income components

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

7 – Intangible assets

Classification

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

Right-of-use assets have not been recognized in respect of leases involving intangible assets as such recognition is optional under IFRS 16.

Recognition

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

Intangible assets may be recognized in respect of goodwill arising from business combinations (purchases of business units). The goodwill recognized in business combinations carried out following January 1, 2004 is recognized in an amount equal to the positive difference between the purchase price of the business combination including transaction costs and the fair value of the assets and liabilities acquired if that positive difference represents future economic benefits. Goodwill in respect of business combinations carried out prior to the date of transition to the IFRS are measured on a cost basis and represent the same value as that given using Italian GAAP.

Measurement

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

Derecognition

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

Recognition of income components

Amortization is recognized through profit or loss. Where there is evidence of possible impairment of the asset, the asset is tested for

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

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

Classification

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

Recognition

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

Measurement and recognition of income components

Following initial recognition in this category, the assets are measured at the lower of their carrying amount and their fair value less costs to sell, with the exception of assets that IFRS 5 requires be measured using the provisions of the relevant accounting standard (for example, financial assets within the scope of IFRS 9). If the assets held for sale can be depreciated, any such depreciation ceases upon classification to non-current assets held for sale. Non-current assets and disposal groups held for sale, as well as “discontinued operations”, and the associated liabilities are reported under specific items of assets (“Non-current assets and disposal groups held for sale”) and liabilities (“Liabilities associated with disposal groups held for sale”).

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

Derecognition

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

9 – Current and deferred taxation

Classification

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

While taking account of the adoption of the national consolidated taxation mechanism by the companies forming part of the “direct scope” of the Group (the former Iccrea Banking Group), the tax positions of each Group company are managed separately for administrative purposes.

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

Deferred 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 associated with the same tax and reversing in the same period are set off.

Recognition and measurement

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

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

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

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

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

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

Recognition of income components

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

10 – Provisions for risks and charges

Provisions for commitments and guarantees issued

This sub-item reports provisions estimated in respect of the credit risk on commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules for calculating expected losses in accordance with IFRS 9. In principle, these cases use the same methods for allocation to the three risk stages and the calculation of expected losses that are adopted for financial assets measured at amortized cost or at fair value through other comprehensive income.

This sub-item also includes are provisions for other types of commitments and guarantees issued that, on the basis of their characteristics, do not fall within the scope of application of impairment in accordance with IFRS 9.

Other provisions for risks and charges

The other provisions for risks and charges include provisions for legal obligations or related to employment relationships or disputes originating from a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The item also includes long-term employee benefits.

Recognition

A provision shall be recognized if and only if:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Measurement and recognition of income components

The amount recognized is the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the end of the reporting period and reflects the risks and uncertainties that inevitably surround many events and circumstances.

Where the time value of money is material and the payment dates of the obligation can be estimated reliably, the provision shall is discounted at market rates as of the reporting date.

Provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the charge required to settle the obligations existing at the close of the period. The impact of the time value of money and that of changes in interest rates are reported in profit or loss under net provisions for the period.

Actuarial gains and losses are recognized immediately in profit or loss.

Derecognition

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

11 – Financial liabilities measured at amortized cost

Classification

Financial liabilities measured at amortized cost include amounts due to banks and customers and securities issued not held for trading in the short term, comprising all technical forms of interbank and customer funding, repurchase agreements and funding through certificates of deposit, bonds and other funding instruments in circulation, net of any amounts repurchased.

The item also includes liabilities recognized by the lessee in respect of leases (finance or operating) pursuant to IFRS 16).

Recognition

The liabilities are initially recognized at fair value, which is normally equal to the amounts received or the issue price, plus or minus any additional costs or revenue directly attributable to the transaction that are not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities issued on non-market terms are recognized at estimated fair value and the difference with respect to the amount paid or the issue price is taken to the income statement.

Measurement and recognition of income components

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

Interest expense recognized on financial liabilities is reported under “Interest and similar expense” in the income statement.

In addition to cases of extinguishment and expiration, financial liabilities reported in these items are also derecognized when previously issued securities are repurchased. In this case, the difference between the carrying amount of the liability and the amount paid to repurchase it is recognized in the income statement under “Gain (loss) on the disposal or repurchase of: c) financial liabilities”. If the repurchased security is subsequently placed again on the market, this is treated as a new issue and is recognized at the new placement price, with no impact on the income statement.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

12 – Financial liabilities held for trading

Classification

The item reports the negative value of trading derivatives that are not part of hedging relationships as well as the negative value of embedded derivatives to be separated from hybrid instruments. Liabilities deriving from short positions in by securities trading activities are recognized under “Financial liabilities held for trading”.

Recognition

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

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

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

Measurement

Subsequent to initial recognition, the financial liabilities are recognized at fair value. Refer to the previous section on measuring financial assets at fair value through profit or loss for information on determining fair value.

Derecognition

Financial liabilities are derecognized when the obligation underlying the liability is extinguished, waived or discharged. Where a financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as the derecognition of the original liability accompanied by the recognition of a new liability, with the recognition of any difference in their carrying amounts through profit or loss.

Recognition of income components

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

13 – Financial liabilities designated as at fair value

Classification

This item reports financial liabilities designated as at fair value through profit or loss under the option permitted to entities in IFRS 9 (the “fair value option”). More specifically, financial liabilities may be irrevocably designated as at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch due to a measurement inconsistency or where they contain one or more embedded derivatives.

Recognition

Financial liabilities at fair value through profit or loss are initially recognized at the issue date at their fair value, which normally corresponds to the price paid. If the price is different from the fair value, the financial liability is recognized at its fair value and the difference between the price and the fair value is recognized in the income statement.

Measurement

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

Classification

In addition to those explicitly denominated in a currency other than the euro, foreign currency assets and liabilities also include those that have indexing clauses linked to the exchange rate of the euro with a specific currency or with a certain basket of currencies.

Recognition

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

Measurement

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

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

Recognition of income components

Exchange rate differences in respect of monetary and non-monetary items measured at fair value are recognized through profit or loss under item 80 “Net gain (loss) on trading activities”. If the asset is measured at fair value through other comprehensive income with no recycling to profit or loss of any gain or loss realized on disposal, exchange rate differences are allocated to valuation reserves.

Exchange rate differences resulting from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial translation rate are recognized through profit or loss in the period in which they emerge.

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

15 – Other information

Employee termination benefits

Following the reform of supplementary pension schemes introduced by Legislative Decree 252 of December 5, 2005, changes were made to the way in which employee termination benefits are recognized. The portion of termination benefits accrued through December 31, 2006 is treated as a defined-benefit plan, since the company is required under law to pay the employee an amount determined pursuant to Article 2120 of the Italian Civil Code.

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

Therefore, starting January 1, 2007, the Group:

- continues to recognize the obligation accrued at December 31, 2006 in accordance with the rules for defined-benefit plans, i.e. using the projected unit credit method. This means that it measures the obligation for benefits accrued by employees using actuarial techniques, projecting into the future the amount to pay at the time the employment relationship is termination and discounting the accrued portion. To this end, the projected unit credit method considers each individual service period as the originator of an additional unit of termination benefits to be used in constructing the final obligation by projecting future outflows on the basis of statistical analysis of historical developments and the demographic curve, discounting those flows using a market interest rate. Total actuarial gains and losses are recognized, in line with the provisions of IAS 19, in equity, while the interest cost component of the change in the defined benefit obligation is recognized in profit or loss;
- recognizes the obligation for portions accrued starting January 1, 2007, payable to a supplementary pension scheme or to the treasury fund managed by INPS, on the basis of the contributions owed in each period, as a defined contribution plan for employee service, in profit or loss. More specifically, in the case of termination benefits payable to a supplementary pension scheme that treatment begins at the time of the choice or, if the employee does not exercise any option, as from July 1, 2007.

Recognition of revenue

Revenue is recognized when realized or, in the case of the sale of goods or services, in relation to the extent to which the performance obligation has been satisfied, as specified below.

Specifically:

- interest is recognized on an accruals basis using the contractual interest rate or the effective interest rate where the amortized cost method is applied;
- default interest, if any, is recognized through profit or loss only upon receipt;
- dividends are recognized in the income statement when their distribution is authorized;
- commissions for revenue from services are recognized in relation to the effective provision of the services to a customer, as discussed in greater detail below;
- revenue from the placement of funding instruments, calculated on the basis of the difference between transaction price and the fair value of the financial instrument, are recognized in the income statement when the transaction is recognized if the fair value can be determined with reference to parameters or transactions recently observed in the same market in which the instrument is traded. If these amounts cannot be easily determined or the instrument is not highly liquid, the financial instrument is recognized in an amount equal to the transaction price, excluding the commercial margin. The difference between this amount and the fair value is taken to profit or loss over the duration of the transaction through the gradual reduction in the valuation model of the corrective factor reflecting the reduced liquidity of the instrument;
- revenue from the sale of non-financial assets are recognized at the time the performance obligation is satisfied with the transfer of the asset, i.e. when the customer obtains control of the asset.

In application of IFRS 15, which was adopted as from 2018, the following steps are followed in recognizing revenue from contracts with customers:

- identification and analysis of the contract signed with the customer to identify the type of revenue. In some specific cases, multiple contracts may have to be combined and accounted for as a single contract;
- identification of the specific performance obligations in the contract. If the goods/services to be transferred are distinct, they qualify as performance obligations and are accounted for separately;

- determination of the transaction price, considering all the performance obligations in the contract. This price may be a fixed amount, but may sometimes include variable or non-monetary consideration;
- allocation of the transaction price to the performance obligations. The transaction price is allocated to the various performance obligations on the basis of the selling prices of each distinct good or service provided contractually. If it is impossible to determine the standalone selling price, it is necessary to estimate it. The assessment must be carried out as from the start date of the contract (the inception date);
- recognition of revenue when the performance obligation is satisfied. Revenue is recognized following the satisfaction of the performance obligation to the customer, i.e. when the latter obtains control of the good or service. Some revenue is recognized at a point in time, while other is accrued over time. It is therefore necessary to identify the moment in which the performance obligation is satisfied. In the case of performance obligations satisfied over time, revenue is recognized over the reference period, selecting an appropriate method to measure the progress made towards complete satisfaction of the performance obligation.

Accruals and deferrals

Accruals and deferrals reporting costs and revenue accruing in the period on assets and liabilities are recognized as adjustments to the assets and liabilities to which they refer.

Expenditure for leasehold improvements

Expenses for refurbishments of buildings belonging to third parties that do not have an independent function or use are conventionally classified under “Other assets”. Amortization is performed a period that does not exceed the term of the lease and amortization charges are reported under other operating expenses.

Determination of 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 (loans and securities) to the three distinct stages on the basis of the following:

- stage 1: this includes newly issued instruments/tranches and exposures to counterparties classified as performing that, as at the reporting date, have a PD lower than or equal to a given threshold (qualifying for the low credit risk exemption) or have not experienced a significant increase in credit risk with respect to that measured the date of disbursement/purchase. The 12-month expected loss is measured for these positions;
- stage 2: this includes all performing instruments/tranches that, as at the reporting date, simultaneously:
  - have a higher PD than the threshold specified for the low credit risk exemption;
  - have experienced a significant increase in credit risk with respect to the date of disbursement;

  In general, in the absence of a rating/PD at the reporting date the exposure is allocated in stage 2 (without prejudice to the use of additional criteria specifically adopted for the management of particular types of portfolios/positions not covered by the use of an internal rating model). In this case, the lifetime expected loss is measured;
- stage 3: this includes all instruments/tranches associated with loans/securities in default, for which the loss is calculated as the difference between the contractual cash flows and expected cash flows, discounted at the effective interest rate of the instrument (lifetime expected loss), which is essentially unchanged compared with the previous accounting standard.

A so-called grace period is also granted, under which newly disbursed exposures are conventionally classified in stage 1 for the first 3 months of the relationship, unless they derive from forbearance measures.

Furthermore, in order to reduce the volatility of allocations of exposures to the various stages, the mechanisms for transferring exposures between stages envisage a so-called 3-month probation period (the minimum period for which positions are allocated to a given stage), defined as follows:

- an exposure allocated to stage 2 can be transferred to stage 1 if at the reporting date the conditions for allocation to stage 1 are met and at least 3 continuous months have elapsed since the factors that prompted allocation to stage 2 no longer exist;
- the reclassification as performing of an exposure previously allocated to stage 3 involves direct allocation to stage 2 for at least 3 months following the return to performing status, unless events requiring reallocation to stage 3 should occur.

If at least one of the criteria for classification in stage 2 is activated for a position within the probation period, the probation period recommences from the month in which the criteria that determined the allocation to stage 2 are no longer active.

Performing forborne exposures for which the regulatory probation period of 24 months is already activated are excluded from the application of this criterion.

With regard to the securities portfolio, the functional methodology for staging performing exposures is based solely on quantitative information. Although they consist in comparing the PD/rating class at the origination date and PD/rating class at the reporting date, the approach used makes extensive use of the low credit risk exemption for the purpose of staging exposures, even in the presence of information on credit risk measures at the date of origination. In particular, exposures with a rating better than or equal to investment grade at the reporting date are allocated to stage 1. Exposures associated with securities in default are classified in stage 3.

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 used underwent forward-looking conditioning;
- Loss Given Default (LGD): the unconditioned LGD measures used are the same for both stage 1 and stage 2 exposures. More specifically, and unconditioned LGD metric of 45% is used, which subsequently undergoes forward-looking conditioning;
- Exposure At Default (EAD): for the purposes of quantifying the EAD associated with each securities issue, the gross value of the exposure at the reporting dates is generally used.

With regard to the loan portfolio:

- Probability of Default (PD): the approach defined by the Group envisages:
  - the use of internal rating models to determine the transition matrix based on rating classes, conditioned to incorporate forward-looking macroeconomic scenarios and used to obtain lifetime PDs;
  - where an internal rating model is absent, calculating default rates on an annual basis, conditioned to include forward-looking macroeconomic scenarios and used to obtain cumulative lifetime PDs;
- Loss Given Default (LGD): the approach for estimating LGD developed by the Group provides for the determination of historical loss rates on closed impaired positions and the application of the so-called danger rate, conditioned by macroeconomic scenarios;
- Exposure At Default (EAD): the estimation approach for EAD differs by type of portfolio, product and stage to which the exposure has been assigned.

In order to condition the risk parameters for future macroeconomic scenarios, the Group uses multipliers (or macroeconomic conditioning factors) that, updated periodically, make it possible to obtain 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 macroeconomic variables.

For the purpose of applying these multipliers, the Group associates the probability of occurrence on a judgmental basis to each scenario. The probability of occurrence of each scenario are 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, the multiplier used is equal to the arithmetic mean of the multipliers of the three years.

With regard to exposures classified in stage 3 (credit-impaired assets), even if the definition of “impaired loans” in IAS 39 and IFRS 9 is substantially the same, the inclusion of forward-looking information, such as the consideration of alternative recovery scenarios, incorporated a number of methodological peculiarities. In particular, scenarios for the sale of credit exposures were considered in connection with possible sales of impaired positions, in line 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.

Note that in order to factor in the effects of the pandemic in the calculation of impairment, a so-called COVID-19 effect is considered in the determination of impairment, with the aim of considering the effects of the pandemic both on the macroeconomic forecasts that contribute to the determination of the expected credit loss and in the stage allocation process for exposures, with specific treatments of the portfolio subject to economic support measures.

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, plant and equipment and intangible assets with a finite useful life undergo impairment testing if there is evidence that the carrying amount of the asset cannot be recovered. The recoverable value is determined as the greater of the fair value of the item of property, plant and equipment or the intangible asset net of costs of disposal or the value in use, if that can be determined.

As regards real estate, fair value is mainly determined on the basis of an appraisal prepared by an independent expert.

Intangible assets recognized following acquisitions and in application of IFRS 3 at each reporting date undergo impairment testing to determine whether there is objective evidence that the asset may have incurred an impairment loss.

If there is evidence of impairment, intangible assets with a finite life undergo a new valuation to determine the recoverability of the carrying amount. Recoverable value is determined on the basis of value in use, i.e. present value, as estimated using a rate representing the time value of money, the specific risks of the asset and the margin generated by relationships in place at the valuation date over a time horizon equal to the residual term of those relationships.

Determination of fair value

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

Financial instruments

With regard to the methods for determining the fair value of financial instruments, please see the information in section A.4 - Fair value disclosures.

Non-financial assets

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

Financial guarantees

As part of its ordinary banking operations, the Bank grants financial guarantees in the form of letters of credit, acceptances and other guarantees. Commission income earned on guarantees, net of the portion representing the recovery of costs incurred in issuing the guarantee, are recognized on an accruals basis under “Fee and commission income”, taking account of the term and residual value of the guarantees.

Following initial recognition, the liability in respect of each guarantee is measured as the greater of the initial recognition amount less cumulative amortization recognized in profit or loss and the best estimate of the expense required to settle the financial obligation that arose following the granting of the guarantee.

Any losses and value adjustments on such guarantees are reported under “value adjustments”. Writedowns for impairment of guarantees are reported under “Provisions for risk and charges”.

Guarantees are off-balance-sheet transactions and are reported under “Other information” in Part B of the notes to the financial statements.

Targeted Longer -Term Refinancing Operations (TLTRO) with the ECB

Loans under TLTRO III program are variable rate loans, indexed to ECB rates, with a reward mechanism for determining the final rate applicable to each operation based on the achievement of certain performance objectives for eligible loans in the period April 1, 2019 - March 31, 2021. Interest is settled in arrears. The Bank of Italy will notify the participating banks of achievement of the performance targets on September 10, 2021.

The term of the loans is 3 years, in accordance with the calendar defined by the ECB, with the option of quarterly early repayment, starting from September 2021.

The financial terms applicable to loans under the TLTRO III program have been modified by the ECB on several occasions, as discussed in in the report on operations, which readers are invited to consult for further information.

At its meeting of December 10, 2020, the Governing Council of the ECB decided to further recalibrate the terms applied to the third series of longer-term refinancing operations (TLTRO-III):

- the period in which considerably more favorable conditions will apply has been extended by 12 months, until June 2022;
- three additional operations will be conducted between June and December 2021;
- the total amount that counterparties will be able to borrow under TLTRO-III has been increased from 50% to 55% of the respective stock of eligible loans;
- in order to encourage banks to support the current level of bank lending, the recalibrated terms will only be offered to banks that reach a new target for the volume of lending.

The duration of the set of measures to relax the eligibility criteria applicable to the guarantees adopted on April 7 and 22, 2020 has been extended until June 2022 in order to continue to ensure that banks can make full use of the liquidity-providing operations of the Eurosystem. The Governing Council will review these measures before June 2022, ensuring that the participation of Eurosystem counterparties is not adversely affected.

The characteristics of the TLTRO-III transactions do not allow for immediate classification under cases specifically dealt with by the IAS/IFRS. We believe we can refer by analogy to "IFRS 9 - Financial Instruments" for the purposes of the accounting treatment of the following situations:

- change in the estimates of achievement of the objectives;
- recognition of financial effects, "special interest";
- management of early repayments.

The Group has elected to refer to the provisions of IFRS 9 in accounting for the operations, believing that the funding conditions to which the banks have access through the TLTRO operations promoted by the ECB are on market terms and conditions. These rates can be considered "market rates" since it is the ECB itself that establishes the level, determining this level in line with the lending objectives to be achieved (monetary policy operations). Furthermore, the ECB has the power to change the TLTRO III interest rate at any time. This right of modification by the ECB, however, must be assessed on the basis of paragraph B5.4.5 of IFRS 9 (floating-rate loans), resulting in a change in the internal rate of return (IRR) of the loan to reflect changes in the benchmark rate. A different situation arises when the loan rate changes due to the modification of the forecasts for achieving the benchmark net lending target. In this case, with the same IRR, the modification of future cash flows can only lead to the measurement of the amount of the loan at amortized cost.

Furthermore, the conditions under which interest is to be calculated are a function of the probability of achieving the net lending target.[32]

The operation essentially has the following financial structure:

- it is a floating-rate transaction indexed to the rate on main refinancing operations (MRO), which is the base rate for the main refinancing operations of the ECB;
- in its basic structure it has a spread of -50 bps in the so-called "special interest rate period" from June 24, 2020 to June 23, 2021;
- in the event of achievement of the goal for the "special reference period" (from March 1, 2020 to March 31, 2021), the structure of the transaction changes as follows:
  - the benchmark rate becomes the rate on the ECB's deposit facility (DF);
  - for the "special interest rate period" a cap of -1.00% is applied to the final rate (deposit facility rate – 50bp).

[32] This accounting choice is consistent with the Public Statement issued by ESMA on January 6, 2021 regarding the "[…] the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)".

- in the event the target for the "special reference period" is not achieved but the secondary objective (growth of 1.15% between April 1, 2019 and March 31, 2021) is partially achieved, an intermediate rate between the average MRO and the average deposit facility rate will be applied.

The final rate applicable to each transaction is therefore influenced by three factors:

- the average rate applicable to the ECB's main refinancing operations, currently equal to 0.0% or in case of positive performance, the average deposit facility rate, currently equal to – 0.50%, which can be modified by the ECB during the term of the respective loans;
- a fixed spread, in favor of Iccrea Banca, equal to 4.5 bp, which can be reset to zero under certain conditions, on transactions between Iccrea Banca and the mutual banks participating in the TLTRO Group;
- the possible performance of the TLTRO Group as a whole and the individual performance of each mutual bank.

The final rate applied to each loan between Iccrea Banca and the mutual banks is therefore equal to the sum of: (i) the weighted average of the ECB MRO or DF rate, (ii) the fixed spread and (iii) the recognition of any performance incentive. The latter element is determined on the basis of periodic monitoring of developments in net lending in the special period.

On September 9, 2021, the Bank of Italy confirmed that the Iccrea Group had fully achieved the target set for the two-year period March 2019-March 2021 and for the first special period, which guarantees the application of the most favorable rate, equal to -1%, on outstanding loans for the period June 2020-June 2021, the effect of which has already been incorporated in these interim financial statements at June 30, 2021.

A.3 – DISCLOSURES ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

Following adoption of IFRS 9, the Bank has not changed the business model it uses to manage its financial assets and, accordingly, no financial assets have been transferred between portfolios.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURES

This section provides the disclosures on the fair value of financial instruments as requested under IFRS 13, in particular paragraphs 91 and 92.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price") on the principal (or most advantageous) market, regardless of whether that price is directly observable or is estimated using a valuation technique.

Prices on an active market are the best indication of the fair value of financial instruments (Level 1 in the fair value hierarchy). In the absence of an active market or where prices are affected by forced transactions, fair value is determined on the basis of the prices of financial instruments with similar characteristics (Level 2 inputs – the comparable approach) or, in the absence of such prices as well, with the use of valuation techniques that use market inputs to the greatest extent possible (Level 2 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model). Where market data is not available, inputs not drawn from the market and estimates and model forecasts may be used (Level 3 inputs – model valuation - mark to model).

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

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

Mark to market

Classification in Level 1 of the fair value hierarchy represents the mark-to-market approach. For an instrument to be classified in Level 1 of the fair value hierarchy, its value must be based solely on quoted prices in an active market to which the Bank has access at the time of valuation (Level 1 inputs).
A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value. The concept of active market is a key concept in allocating a financial instrument to Level 1. An active market is a market (or dealer, broker, industrial group, pricing service or regulatory agency) in which transactions for the asset or liability take place with sufficient frequency and sufficient volumes are traded to provide pricing information on an ongoing basis. Thus, the definition implies that the concept of active market is associated with the individual financial instrument and not the market itself, and it is therefore necessary to conduct materiality tests. The Group Fair Value Policy specified the criteria to be used in identifying an active market and the consequent use of the mark-to-market approach.

The definition of "active market" is broader than that of "regulated market": regulated markets are defined as the markets included in the list provided for by Article 63, paragraph 2, of the Consolidated Finance Act (TUF) and in the special section of the same list (see Article 67, paragraph 1, of the TUF). These markets are managed by companies authorized by Consob that operate in accordance with the provisions of the TUF and under the supervision of Consob itself.

Other markets in addition to regulated markets include organized trading systems (Multilateral Trading Systems and Systematic Internalizers) defined, pursuant to Legislative Decree 58/98, as a "set of rules and structures, including automated structures, which make exchange possible, on an ongoing or periodic basis, in order to collect and transmit orders for transactions in financial instruments and to settle these orders, for the purpose of concluding contracts": although normally the financial instruments listed on these markets fall within the definition of instruments listed on active markets, there may be situations in which officially listed instruments are not liquid due to low trading volumes. In such cases, quoted prices cannot be considered representative of the fair value of an instrument. Generally speaking, multilateral trading facilities (MTF) can be considered active markets if they are characterized by continuous and significant trading and/or by the presence of binding prices provided by the market maker, such as to ensure the formation of prices that actually represent the fair value of the instrument.

Financial instruments are also listed on regulated markets in other countries, and therefore not regulated by Consob, whose prices are available daily. These prices are considered representative of the fair value of the financial instruments insofar as they represent the result of a regular transaction and not only of offers to buy or sell. Finally, other markets, while not regulated, can also be considered active markets (e.g. platforms such as Bloomberg or Markit). Electronic over-the-counter (OTC) trading circuits are considered active markets to the extent that the quotations provided actually represent the price at which a normal transaction would occur. Similarly, the quotes published by brokers are representative of fair value if they reflect the actual price level of the instrument in a liquid market (that is, they are not indicative prices, but rather binding offers).

Ultimately, in order to consider a market active, the significance of the price observed on the market itself is of particular importance and, for this reason, the following factors are considered:

- bid-ask spreads: the difference between the price at which an intermediary undertakes to sell the securities (ask) and the price at which it undertakes to buy them (bid). The larger the spread, the lower the liquidity of the market and therefore the significance of the price;
- breadth and depth of the trading book: the first concept refers to the presence of offers of large dimensions, while the depth of the book means the existence of both purchase and sell orders for numerous price levels;
- number of contributors: number of market participants providing purchase or sell offers for a specific instrument. The larger the number of active market participants, the greater the significance of the price;
- availability of information on the terms and conditions of transactions;
- price volatility: presence of daily prices of the instrument outside a certain range. The lower the volatility of the prices, the greater the significance of the price.

Comparable approach

As already noted, the fair value of financial instruments classified in Level 2 can be determined using two different approaches: the so-called comparable approach, which presupposes the use of prices quoted on active markets for similar assets or liabilities or the prices of identical assets or liabilities on inactive markets, and the model valuation approach (or mark to model), which uses valuation techniques based on observable inputs concerning the instrument itself or similar instruments.

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

- quoted prices on active markets for similar assets or liabilities;

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

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

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

Mark to model approach

In the absence of quoted prices for the instrument or for comparable instruments, valuation models are adopted. Valuation models must always maximize the use of market inputs. Accordingly, they must make priority use of observable market inputs (e.g. interest rates and yield curves observable at commonly quoted intervals, volatilities, credit spreads, etc.).

In the absence of directly or indirectly observable inputs or where they are insufficient to determine the fair value of an instrument, inputs that are not observable on the market be used (discretionary estimates and assumptions). With the consequent allocation of the estimate obtained to Level 3 of the fair value hierarchy.

The mark-to-model technique therefore does not give rise to a single classification within the fair value hierarchy. Depending on the observability and materiality of the inputs used in the valuation model, an instrument could be assigned to Level 2 or Level 3.

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

The 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 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 HEIRARCHY

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

- Level 1: unadjusted quoted prices on an active market. Fair value is drawn directly from quoted prices observed on active markets;
- Level 2: inputs other than the quoted prices noted above that are observable on the market either directly (prices) or indirectly (derivatives on prices). Fair value is determined using valuation techniques that provide for: a) the use of market inputs indirectly connected with the instrument being valued and derived from instruments with similar risk characteristics (the comparable approach); or b) that use observable inputs;
- Level 3: inputs that are not observable on the market. Fair value is determined using valuation techniques that use significant unobservable inputs.

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

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

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

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

	30/06/2021			31/12/2020		
	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	377,315	907,486	56,369	358,503	948,358	28,609
a) financial assets held for trading	36,547	438,432	80	6,201	567,670	5
b) financial assets designated as at fair value	311,955	23,026	-	341,076	22,179	-
c) other financial assets mandatorily measured at fair value	28,813	446,028	56,289	11,225	358,509	28,604
2. Financial assets measured at fair value through comprehensive income	307,210	136,400	8,615	271,590	32,811	6,806
3. Hedging derivatives	-	3,106	-	-	8,710	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	684,525	1,046,992	64,984	630,093	989,879	35,415
1. Financial liabilities held for trading	24,049	429,507	-	391	563,120	-
2. Financial liabilities designated as at fair value	-	336,289	-	-	340,957	-
3. Hedging derivatives	-	121,969	-	-	173,821	-
Total	24,049	887,765	-	391	1,077,899	-

Paragraph 93 letter c) of IFRS 13 requires that, in addition to reporting the fair value hierarchy, entities shall disclose information on significant transfers between Level 1 and Level 2 and the reasons for the transfer. Please note that there were no such transfers during the period.

In addition, with regard to the quantitative impact on the determination of the fair value of financial derivative instruments, the Credit Value Adjustment (for default risk of counterparties) involved a decrease of about €5.5 thousand, while the Debt Value Adjustment (for default risk of the Bank) involved a change of about €7.7 thousand.

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

There were no differences in the period between the fair value at initial recognition and the value calculated at the same date using valuation techniques, in accordance with IFRS 9 (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 30/06/2021	Total 31/12/2020
a) Cash		98,402	129,048
b) Demand deposits with central banks		138,991	80,380
	Total	237,393	209,428

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, in the amount of about €24 million and about €116 million in respect of instant payments.

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	**34,050**	**197**	**-**	**4,586**	**2**	**3**
1.1 structured securities	443	-	-	1,865	-	-
1.2 other debt securities	33,607	197	-	2,722	2	3
2. Equity securities	**1,612**	**56**	**3**	**345**	**3**	**2**
3. Units in collective investment undertakings	**685**	**488**	**77**	**987**	**118**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total (A)	36,348	741	80	5,918	122	5
B. Derivatives						
1. Financial derivatives	**200**	**437,691**	**-**	**283**	**567,548**	**-**
1.1 trading	200	437,691	-	283	567,548	-
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)	200	437,691	-	283	567,548	-
Total (A+B)	36,547	438,432	80	6,201	567,670	5

2.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE: COMPOSITION BY TYPE

	Total 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**311,955**	**23,026**	**-**	**341,076**	**22,179**	**-**
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	311,955	23,026	-	341,076	22,179	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
2.1 structured securities	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-
Total	**311,955**	**23,026**	**-**	**341,076**	**22,179**	**-**

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 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**23,435**	**37,915**	**516**	**6,851**	**25,345**	**2,142**
1.1 structured securities	6,177	7,100	305	-	5,095	2,128
1.2 other debt securities	17,258	30,814	211	6,851	20,250	15
2. Equity securities	**5,378**	**1,931**	**35,533**	**4,374**	**824**	**26,456**
3. Units in collective investment undertakings	**-**	**406,182**	**20,235**	**-**	**332,340**	**-**
4. Loans	**-**	**-**	**5**	**-**	**-**	**5**
4.1 repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	5	-	-	5
Total	**28,813**	**446,028**	**56,289**	**11,225**	**358,509**	**28,604**

“Units in collective investment undertakings” includes, among others, the units of the closed-end investment funds “Securis Real Estate” managed by Investire SGR SpA:

- Securis Real Estate III, in the amount of €98,773 thousand;
- Securis Real Estate II, in the amount of €110,626 thousand;
- Securis Real Estate I, in the amount of €187,724 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 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**301,105**	**7,828**	**-**	**248,854**	**9,187**	**-**
1.1 structured securities	12,729	-	-	6,544	-	-
1.2 other debt securities	288,376	7,828	-	242,310	9,187	-
2. Equity securities	**6,105**	**128,572**	**8,615**	**22,736**	**23,624**	**6,806**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**307,210**	**136,400**	**8,615**	**271,590**	**32,811**	**6,806**

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	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	294,957	14,445	-	(162)	(307)	-	
Loans	-	-	-	-	-	-	
Total 30/06/2021	**294,957**	**14,445**	**-**	**(162)**	**(307)**	**-**	**X**
Total 31/12/2020	**225,994**	**33,047**	**-**	**(302)**	**(898)**	**-**	**X**

** Value to be reported for information purposes*

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

4.1 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS

	Total 30/06/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
A. Claims on central banks	**6,441,488**	**-**	**-**	**-**	**-**	**6,441,488**	**3,858,522**	**-**	**-**	**-**	**-**	**3,858,522**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	6,441,488	-	-	X	X	X	3,858,522	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**24,239,715**	**-**	**-**	**132,741**	**22,977,945**	**1,085,415**	**29,334,252**	**-**	**-**	**37,486**	**28,119,186**	**1,323,618**
1. Financing	23,728,107	-	-	-	22,644,122	1,034,758	28,897,188	-	-	-	27,768,602	1,273,218
1.1. Current accounts and demand deposits	685,890	-	-	X	X	X	630,870	-	-	X	X	X
1.2. Fixed-term deposits	69,779	-	-	X	X	X	357,917	-	-	X	X	X
1.3. Other financing:	22,972,437	-	-	X	X	X	27,908,401	-	-	X	X	X
- Repurchase agreements	16,160	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	22,956,277	-	-	X	X	X	27,908,401	-	-	X	X	X
2. Debt securities	511,608	-	-	132,741	333,823	50,657	437,065	-	-	37,486	350,584	50,400
2.1 Structured securities	6,571	-	-	7,082	-	-	-	-	-	-	-	-
2.2 Other debt securities	505,038	-	-	125,659	333,823	50,657	437,065	-	-	37,486	350,584	50,400
Total	**30,681,203**	**-**	**-**	**132,741**	**22,977,945**	**7,526,903**	**33,192,774**	**-**	**-**	**37,486**	**28,119,186**	**5,182,140**

Loans connected with pool collateral operations amount to €18,470 million connected with €20,878 million financed by the European Central Bank (TLTRO) and included under letter "B", item "Other financing– Other". Securities pledged as collateral amount to €22,954 million net of the haircut applied to the various types of securities.

In addition, during the period financing with the assignment of loans through the "ABACO" procedure continued. At the end of the period loans received from Iccrea BancaImpresa securing the collateral pool amounted to €1,589 million, which net of the haircut decreased to about €1,097 million.

4.2 FINANCIAL ASSETS MEASURED AT AMORTIZED COST: BREAKDOWN BY PRODUCT OF LOANS AND RECEIVABLES WITH CUSTOMERS

	Total 30/06/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
1. Loans	**6,132,094**	**119,754**	**-**	**-**	**2,478,700**	**3,798,517**	**4,495,402**	**5,696**	**-**	**-**	**2,388,774**	**2,166,632**
1.1. Current accounts	193,589	33,366	-	X	X	X	276,755	27	-	X	X	X
1.2. Repurchase agreements	609,080	-	-	X	X	X	1,772,307	-	-	X	X	X
1.3. Medium/long term loans	2,635,387	77,166	-	X	X	X	59,566	5,504	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from pensions/wages	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Finance leases	40	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	2,693,998	9,222	-	X	X	X	2,386,774	166	-	X	X	X
2. Debt securities	**10,731,810**	**217**	**-**	**10,406,485**	**387,415**	**152,599**	**9,791,187**	**-**	**-**	**9,510,953**	**513,016**	**41,037**
2.1 Structured securities	153,029	-	-	68,901	9,442	108,769	102,092	-	-	5,362	68,102	28,923
2.2 Other debt securities	10,578,781	217	-	10,337,584	377,973	43,830	9,689,095	-	-	9,505,590	444,913	12,115
Total	**16,863,903**	**119,971**	**-**	**10,406,485**	**2,866,115**	**3,951,115**	**14,286,589**	**5,696**	**-**	**9,510,953**	**2,901,789**	**2,207,670**

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

		Gross amount			Total writeoffs			Total and partial writeoffs *
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		11,157,879	100,182	217	(2,793)	(11,850)	-	-
Loans		35,299,096	1,051,754	365,594	(14,813)	(34,348)	(245,840)	(28,507)
Total	**30/06/2021**	**46,456,975**	**1,151,936**	**365,811**	**(17,607)**	**(46,198)**	**(245,840)**	**(28,507)**
Total	**31/12/2020**	**47,133,219**	**361,514**	**30,140**	**(7,752)**	**(7,618)**	**(24,444)**	**(373)**

** Value to be reported for information purposes*

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

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

	FV 30/06/2021			NV	FV 31/12/2020			NV
	L1	L2	L3	30/06/2021	L1	L2	L3	31/12/2020
A. Financial derivatives								
1. Fair value	-	2,849	-	50,000	-	6,834	-	321,877
2. Cash flows	-	257	-	50,000	-	1,877	-	74,128
3. Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**3,106**	**-**	**100,000**	**-**	**8,711**	**-**	**396,005**

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

SECTION 6 - VALUE ADJUSTMENTS OF FINANCIAL ASSETS HEDGED GENERICALLY – ITEM 60

6.1 VALUE ADJUSTMENTS OF HEDGED ASSETS: COMPOSITION OF HEDGED PORTFOLIOS

		Total 30/06/2021	Total 31/12/2020
1. Positive adjustments		**873**	**1,158**
1.1 of specific portfolios:		873	1,158
a) financial assets measured at amortized cost		-	-
b) financial assets measured at fair value through comprehensive income		873	1,158
1.2 comprehensive		-	-
2. Negative adjustments		**-**	**-**
2.1 of specific portfolios:		-	-
a) financial assets measured at amortized cost		-	-
b) financial assets measured at fair value through comprehensive income		-	-
2.2 comprehensive		-	-
	Total	**873**	**1,158**

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 EQUITY INVESTMENTS: INFORMATION ON INVESTMENTS

	Registered office	Operational headquarters	% holding	% votes
A. Subsidiaries				
Iccrea BancaImpresa SpA	Rome	Rome	100.0	100.0
BCC Beni Immobili Srl	Milan	Rome	100.0	100.0
BCC Servizi Assicurativi Srl	Milan	Milan	96.2	96.2
BCC Factoring SpA	Rome	Milan	100.0	100.0
BCC Pay SpA	Rome	Rome	100.0	100.0
BCC Sistemi Informatici SpA	Milan	Milan	100.0	100.0
BCC Risparmio e Previdenza SGrpA	Milan	Milan	100.0	100.0
BCC Gestione Crediti SpA	Rome	Rome	100.0	100.0
BCC Solutions SpA	Rome	Rome	100.0	100.0
BCC CreditoConsumo SpA	Rome	Udine	100.0	100.0
Banca Sviluppo SpA	Rome	Rome	99.3	99.3
Banca MedioCredito FVG SpA	Udine	Udine	52.0	52.0
Iccrea Covered Bond	Rome	Rome	90.0	90.0
BCC Accademia ScpA	Rome	Rome	100.0	100.0
Sinergia SpA	Milan	Treviglio	99.4	99.4
BCC Banca Centropadana SC	Lodi	Lodi	23.4	96.5
Banca Valdichiana - Credito cooperativo di Chiusi e Montepulciano	Chiusi	Chiusi	74.9	99.3
B. Joint ventures				
C. Companies subject to significant influence				
Hbenchmark Srl	Vicenza	Vicenza	10.0	10.0
Hi-Mtf SpA	Milan	Milan	25.0	25.0
BCC Vita SpA	Milan	Milan	30.3	30.3
BCC Assicurazioni SpA	Milan	Milan	30.3	30.3
Bit - Servizi per L'Investimento sul Territorio	Parma	Parma	39.2	39.2

The investments held in Banca Centropadana and Banca Valdichiana consist of shares issued pursuant to Article 150-ter of the Consolidated Banking Act and subscribed pursuant to Article 6 of the Cohesion Contract concerning the Cross Guarantee Scheme.

7.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

	Carrying amount	Fair value	Dividends received
A. Subsidiaries			
Iccrea BancaImpresa SpA	708,093	-	-
BCC Beni Immobili Srl	13,157	-	-
BCC Servizi Assicurativi Srl	944	-	-
BCC Factoring SpA	19,078	-	-
Bcc Pay SpA	350	-	-
Bcc Sistemi Informatici SpA	108,485	-	-
BCC Risparmio e Previdenza SgrpA	48,474	-	7,905
BCC Gestione Crediti SpA	4,021	-	864
BCC Solutions SpA	75,700	-	2,003
BCC CreditoConsumo SpA	57,841	-	12,600
Banca Sviluppo SpA	122,702	-	-
Banca Mediocredito FVG SpA	31,527	-	-
Iccrea Covered Bond	14	-	-
Bcc Accademia ScpA	800	-	33
Sinergia SpA	1,632	-	-
BCC Banca Centropadana SC	13,200	-	-
Banca Valdichiana - Credito cooperativo di Chiusi e Montepulciano	35,000	-	-
B. Joint ventures			
C. Companies subject to significant influence			
Hbenchmark Srl	500	-	-
Hi-Mtf SpA	1,250	-	-
BCC Vita SpA	84,600	-	-
BCC Assicurazioni	6,447	-	-
Bit - Servizi per L'Investimento sul Territorio	1,696	-	-
Total	**1,335,511**	**-**	**23,405**

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 OPERATING PROPERTY, PLANT AND EQUIPMENT: COMPOSITION OF ASSETS CARRIED AT COST

	Total 30/06/2021	Total 31/12/2020
1. Owned assets	**256**	**291**
a) land	-	-
b) building	-	-
c) movables	196	206
d) electrical plant	27	44
e) other	33	41
2. Right-of-use assets acquired under finance leases	**3,209**	**3,223**
a) land	-	-
b) building	811	997
c) movables	-	-
d) electrical plant	-	-
e) other	2,398	2,227
Total	**3,465**	**3,514**
of which: obtained through enforcement of guarantees received	-	-

The item "Right-of-use assets acquired under finance leases" includes the right of use connected with leased assets (leased buildings and automobiles) in line with the provisions of the new IFRS 16.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 INTANGIBLE ASSETS: COMPOSITION BY CATEGORY

	Total 30/06/2021		Total 31/12/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**-**
A.2 Other intangible assets	**893**	**-**	**2,127**	**-**
A.2.1 Assets carried at cost	893	-	2,127	-
a) internally generated intangible assets	-	-	-	-
b) other assets	893	-	2,127	-
A.2.2 Assets designated at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**893**	**-**	**2,127**	**-**

The decrease in the item reflects the reclassification of items connected with the e-money segment under item A110 “Non-current assets and disposal groups held for sale” and the sale during the period of IT assets (ATMs) to BCC SI with a residual value of about €1.2 million.

SECTION 10 - TAX ASSETS AND LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 DEFERRED TAX ASSETS: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/06/2021			31/12/2020		
1) Recognized in income statement	**10,777**	**25**	**10,802**	**21,879**	**28**	**21,907**
a) DTA pursuant to Law 214/2011	**2,213**	**25**	**2,238**	**2,444**	**28**	**2,472**
Total	2,085	25	2,110	2,316	28	2,344
Goodwill and other intangible assets recognized at 31.12.2014	-	-	-	-	-	-
Tax losses/negative value of production as per Law 214/2011	128	-	128	128	-	128
b) Other	**8,564**	**-**	**8,564**	**19,435**	**-**	**19,435**
Writedowns of amounts due from banks	819	-	819	1,547	-	1,547
Writedowns of loans to customers	102	-	102	109	-	109
Goodwill and other intangible assets	-	-	-	-	-	-
Tax losses	3,298	-	3,298	9,631	-	9,631
Writedowns of financial assets held for trading and financial assets measured at fair value	-	-	-	-	-	-
Writedowns of securities in circulation	-	-	-	-	-	-
Writedowns of financial liabilities held for trading and financial liabilities measured at fair value	-	-	-	-	-	-
Writedowns of impairment of guarantees issued recognized under liabilities	1,249	-	1,249	-	-	-
Provisions for risks and charges	3,031	-	3,031	5,839	-	5,839
Costs of predominantly administrative nature	-	-	-	-	-	-
Difference between tax value and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	64	-	64	2,309	-	2,309
- Recognized in shareholders' equity	**2,370**	**422**	**2,792**	**6,372**	**1,222**	**7,594**
a) Valuation reserves:	**966**	**196**	**1,162**	**2,049**	**415**	**2,464**
Capital losses on financial assets measured through OCI	966	196	1,162	2,049	415	2,464
b) Other:	**1,404**	**226**	**1,630**	**4,323**	**807**	**5,130**
Actuarial gains/losses on provisions for employees	287	-	287	341	-	341
Other	1,117	226	1,343	3,982	807	4,789
A. Total deferred tax assets	**13,147**	**447**	**13,594**	**28,252**	**1,250**	**29,501**
B. Offsetting with deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets - Total 100 b)	**13,147**	**447**	**13,594**	**28,252**	**1,250**	**29,501**

10.2 DEFERRED TAX LIABILITIES: COMPOSITION

	IRES	IRAP	TOTAL	IRES	IRAP	TOTAL
	30/06/2021			31/12/2020		
1) Deferred tax liabilities recognized in income statement:	**-**	**-**	**-**	**-**	**-**	**-**
Writedowns of loans to customers deducted in separate section of tax return (not recognized in income statement)	-	-	-	-	-	-
Difference between value for tax purposes and carrying amount of property, plant and equipment and intangible assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
2) Deferred tax liabilities recognized in shareholders' equity:	**1,256**	**254**	**1,510**	**976**	**198**	**1,173**
Valuation reserves:						
Capital gains on financial assets measured through OCI	1,256	254	1,510	976	198	1,173
Revaluation of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
A. Total deferred tax liabilities	**1,256**	**254**	**1,510**	**976**	**198**	**1,173**
B. Offsetting with deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Net deferred tax assets -Total sub-item 60 b)	**1,256**	**254**	**1,510**	**976**	**198**	**1,173**

10.7 OTHER INFORMATION

As regards the Bank's tax position:

- for the financial years 2016, 2017, 2018 and 2019 (for which the tax assessment time limit has not expired), no formal notice of assessment has yet been received;
- in November 2014, the Bank received a notice of liquidation from the Revenue Agency, Provincial Directorate of Brescia for the year 2013 concerning the registration fees of €104,770.00 for an order assigning amounts for seizure by third parties. Following adverse rulings in the first two levels of adjudication, the Bank has appealed to the Court of Cassation.

SECTION 11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE: COMPOSITION BY TYPE

	30/06/2021	31/12/2020
A. Assets held for sale		
A.1 Financial assets	601	580
A.2 Equity investments	-	-
A.3 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	2,794	3,381
A.5 Other non-current assets	207,576	185,472
Total A	**210,971**	**189,432**
of which carried at cost	210,971	189,432
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated as at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Debt	113,369	108,728
C.2 Securities	-	-
C.3 Other liabilities	86,563	62,085
Total C	**199,932**	**170,813**
of which carried at cost	199,932	170,813
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated as at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which carried at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

During the period, the Bank classified the assets and liabilities of the electronic money 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 30/06/2021	Total 31/12/2020
Receivables for future premiums on derivatives	9,994	11,267
Fees and commissions and interest to be received	3,686	3,959
Tax receivables due from central govt. tax authorities and other tax agencies (including VAT credits)	39,673	2,803
Items in transit between branches and items being processed	73,479	38
Financial assets in respect of loans granted for a specific transaction	70,856	71,677
Accrued income not attributable to separate line item	280	27
Prepaid expenses not attributable to separate line item	12,363	262
Subsidiaries – Group VAT	10,680	4,957
Tax consolidation mechanism	12,321	11,277
Other (security deposits, assets not attributable to other items)	72,326	8,719
Total	305,658	114,985

The item “Financial assets in respect of loans granted for a specific transaction” regards the Parent Company’s contribution to the Guarantee Scheme.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST – ITEM 10

1.1 FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST- DUE TO BANKS: COMPOSITION BY TYPE

	Total 30/06/2021				Total 31/12/2020			
	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	**20,685,396**	X	X	X	**18,885,985**	X	X	X
2. Due to banks	**17,218,071**	X	X	X	**15,003,870**	X	X	X
2.1 Current accounts and demand deposits	3,821,570	X	X	X	3,297,431	X	X	X
2.2 Fixed term deposits	12,695,044	X	X	X	10,951,417	X	X	X
2.3 Loans	696,875	X	X	X	751,396	X	X	X
2.3.1 Repurchase agreements	433,444	X	X	X	451,538	X	X	X
2.3.2 Other	263,431	X	X	X	299,858	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	4,581	X	X	X	3,626	X	X	X
Total	**37,903,466**	**-**	**37,615,647**	**670,376**	**33,889,855**	**-**	**33,801,540**	**596,759**

The item "Due to central banks" mainly represents financing from the ECB (TLTRO-II and TLTRO III).

The item "Due to banks" mainly represents intercompany transactions.

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

	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	761,996	X	X	X	886,361	X	X	X
2. Fixed-term deposits	-	X	X	X	55,012	X	X	X
3. Loans	5,751,507	X	X	X	8,212,042	X	X	X
3.1 Repurchase agreements	5,251,507	X	X	X	6,712,276	X	X	X
3.2 Other	500,000	X	X	X	1,499,767	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	3,209	X	X	X	3,227	X	X	X
6. Other liabilities	524,538	X	X	X	475,306	X	X	X
Total	**7,041,249**	**-**	**4,319,936**	**2,727,448**	**9,631,949**	**-**	**7,097,326**	**2,543,666**

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 liabilities" 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

	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	3,289,756	1,731,156	1,607,638	-	4,186,006	2,289,566	1,923,524	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	3,289,756	1,731,156	1,607,638	-	4,186,006	2,289,566	1,923,524	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**3,289,756**	**1,731,156**	**1,607,638**	**-**	**4,186,006**	**2,289,566**	**1,923,524**	**-**

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 €407 million.

1.4 BREAKDOWN OF SUBORDINATED DEBT/SECURITIES

	30/06/2021	31/12/2020
A.1 Subordinated debt	**-**	**-**
- banks	-	-
- customers	-	-
B.1 Subordinated securities	**406,774**	**433,475**
- banks	406,774	433,475
- customers	-	-
Total	**406,774**	**433,475**

At June 30, 2021 the following bonds were in issue:

- issue date November 28, 2019, Maturity date November 28, 2029, residual nominal value at June 30, 2021: €397.101 million, interest rate 4.125%, interest paid six-monthly in arrears. Repayment of 100% at maturity, except in the event of early redemption.

1.6 LIABILITIES IN RESPECT OF FINANCE LEASES

Right of use	Falling due within 5 years	Falling due after 5 years
Land	-	-
Buildings	811	-
Movables	-	-
Electrical plant	-	-
Other	2,398	-

Lease liabilities regard property leases and automobile rentals, in accordance with the provisions of IFRS16.

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION BY TYPE

	Total 30/06/2021					Total 31/12/2020				
	NV	Fair value			Fair Value *	NV	Fair value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Due to banks	18,387	18,120	559	-	18,679	133	153	-	-	153
2. Due to customers	5,563	5,702	-	-	5,702	125	120	-	-	120
3. Debt securities	-	-	-	-		-	-	-	-	X
3.1 Bonds	-	-	-	-		-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3. Other	-	-	-	-		-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**23,950**	**23,822**	**559**	**-**	**24,381**	**258**	**273**	**-**	**-**	**273**
B. Derivatives										
1. Financial derivatives		227	428,947	-		X	117	563,120	-	X
1.1 Trading	X	227	428,947	-	X	X	117	563,120	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-		X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**227**	**428,947**	**-**	**X**	**X**	**117**	**563,120**	**-**	**X**
Total (A+B)	**X**	**24,049**	**429,507**	**-**	**X**	**X**	**391**	**563,120**	**-**	**X**

Key:
NV= nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

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

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

	Total 30/06/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**336,735**	**-**	**336,289**	**-**	**336,289**	**337,431**	**-**	**340,957**	**-**	**340,957**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	336,735	-	336,289	-	X	337,431	-	340,957	-	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	**336,735**	**-**	**336,289**	**-**	**336,289**	**337,431**	**-**	**340,957**	**-**	**340,957**

Key:
NV= Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3
Fair value*= Fair value calculated excluding changes in the amount attributable to changes in the creditworthiness of the issuer since the issue date

The entire amount is represented by the affiliated banks' Ex Ante Quota of the contribution to the Guarantee Scheme, adjusted to take account of net interest and commissions on the loan.

SECTION 4 - HEDGING DERIVATIVES – ITEM 40

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

	Fair value	30/06/2021		NV	Fair value	31/12/2020		NV
	L1	L2	L3	30/06/2021	L1	L2	L3	31/12/2020
A) Financial derivatives	**-**	**121,969**	**-**	**5,962,228**	**-**	**173,821**	**-**	**4,595,948**
1) Fair value	-	105,956	-	5,680,383	-	151,146	-	3,923,876
2) Cash flows	-	16,013	-	281,846	-	22,676	-	672,071
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	121,969	-	5,962,228	-	173,821	-	4,595,948

Key:
NV=Notional value
L1=Level 1
L2= Level 2
L3= Level 3

SECTION 6 – TAX LIABILITIES– ITEM 60

See section 10 under assets.

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

See section 11 under assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 OTHER LIABILITIES: COMPOSITION

	Total 30/06/2021	Total 31/12/2020
Amounts due to social security institutions and State	20,939	13,777
Amounts available to customers	13,722	6,826
Liabilities for future premiums on derivatives	3,243	3,696
Tax payables due to tax authorities	39,106	28,051
Payables due to employees	43,258	25,516
Financial liabilities in respect of loans granted for a specific transaction	70,856	71,677
Accrued expenses not attributable to separate line item	193	113
Deferred income not attributable to separate line item	8,252	5,344
Items in transit and items being processed	93,579	71,571
Other (failed purchase transactions, trade payables, insurance liabilities, security deposits, items not attributable to separate line item)	175,343	75,836
Subsidiaries – Group VAT	183	186
Consolidated taxation mechanism	39,993	29,568
Total	508,667	332,160

The sub-item “Financial liabilities in respect of loans granted for a specific transaction” 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 30/06/2021	Total 31/12/2020
A. Opening balance	**16,179**	**18,003**
B. Increases	**2,004**	**1,327**
B.1 Provisions for the period	12	652
B.2 Other increases	1,993	674
C. Decreases	**2,729**	**3,150**
C.1 Benefit payments	2,717	1,116
C.2 Other decreases	12	2,035
D. Closing balance	**15,455**	**16,179**
Total	15,455	16,179

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

	Total 30/06/2021	Total 31/12/2020
1. Provisions for credit risk in respect of commitments and financial guarantees issued	18,105	70
2. Provisions for other commitments and guarantees issued	-	-
3. Company pension plans	-	-
4. Other provisions for risks and charges	10,174	21,797
4.1 legal disputes	2,929	3,735
4.2 personnel expense	2,049	13,837
4.3 other	5,197	4,224
Total	28,279	21,867

SECTION 12 - SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

	Total 30/06/2021	Total 31/12/2020
A. Share capital		
A.1 Ordinary shares	1,401,045	1,401,045
A.2 Savings shares	-	-
A.3 Preference shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	-	-
B.2 Savings shares	-	-
B.3 Preference shares	-	-
B.4 Other shares	-	-

12.2 SHARE CAPITAL – NUMBER OF SHARES OF THE PARENT COMPANY: CHANGE FOR THE PERIOD

	Ordinary	Other
A. Shares at the start of the year	**27,125,759**	**-**
- fully paid	27,125,759	-
- partially paid	-	-
A.1 Treasury shares (-)	**-**	-
A.2 Shares in circulation: opening balance	**27,125,759**	**-**
B. Increases	**-**	**-**
B.1 new issues	-	-
- for consideration:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**27,125,759**	**-**
D.1 Treasury shares(+)	-	-
D.2 Shares at the end of the year	27,125,759	-
- fully paid	27,125,759	-
- partially paid	-	-

PART C - INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

	Debt securities	Loans	Other transactions	Total 30/06/2021	Total 30/06/2020
1. Financial assets measured at fair value through profit or loss	**3,033**	**-**	**-**	**3,033**	**2,289**
1.1 Financial assets held for trading	899	-	-	899	400
1.2 Financial assets designated at fair value	1,550	-	-	1,550	1,554
1.3 Other financial assets mandatorily at fair value	584	-	-	584	335
2. Financial assets measured at fair value through other comprehensive income	**763**	**-**	**X**	**763**	**1,243**
3. Financial assets measured at amortized cost	**109,753**	**52,247**	**X**	**161,999**	**77,632**
3.1 Due from banks	7,753	8,789	X	16,542	32,463
3.2 Loans to customers	102,000	43,458	X	145,457	45,169
4. Hedging derivatives	**X**	**X**	**(58,074)**	**(58,074)**	**(4,183)**
5. Other assets	**X**	**X**	**49**	**49**	**139**
6. Financial liabilities	**X**	**X**	**X**	**129,274**	**70,173**
Total	113,549	52,247	(58,025)	237,045	147,292
of which: interest income on impaired financial assets	-	54	-	54	121
of which: interest income from finance leases	-	-	-	-	-

1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

	Debt	Securities	Other transactions	Total 30/06/2021	Total 30/06/2020
1. Financial liabilities measured at amortized cost	**(21,668)**	**(33,552)**	**X**	**(55,219)**	**(61,268)**
1.1 Due to central banks	(141)	X	X	(141)	(80)
1.2 Due to banks	(19,364)	X	X	(19,364)	(18,757)
1.3 Due to customers	(2,163)	X	X	(2,163)	(1,956)
1.4 Securities issued	X	(33,552)	X	(33,552)	(40,475)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**(41)**	**(41)**	**(114)**
5. Hedging derivatives	**X**	**X**	**583**	**583**	**249**
6. Financial assets	**X**	**X**	**X**	**(94,123)**	**(51,153)**
Total	(21,668)	(33,552)	542	(148,800)	(112,286)
of which: interest expense on lease liabilities	(32)	-	-	(32)	(35)

SECTION 2 - FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 FEE AND COMMISSION INCOME: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
a) guarantees issued	1,247	319
b) credit derivatives	-	-
c) management, intermediation and advisory services:	9,407	12,074
1. Trading in financial instruments	2,608	2,353
2. foreign exchange	23	23
3. asset management (individual)	-	-
4. securities custody and administration	3,064	2,894
5. depository services	-	-
6. securities placement	2,509	5,783
7. order collection and transmission	856	613
8. advisory services	346	408
8.1 concerning investments	-	-
8.2 concerning financial structure	346	408
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	21,121	18,591
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	143	108
j) other services	21,279	6,686
Total	**53,198**	**37,779**

2.3 FEE AND COMMISSION EXPENSE: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
a) guarantees received	(281)	(395)
b) credit derivatives	-	-
c) management and intermediation services:	(5,988)	(8,211)
1. trading in financial instruments	(703)	(717)
2. foreign exchange	(14)	(7)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. securities custody and administration	(2,931)	(2,735)
5. placement of financial instruments	(2,340)	(4,752)
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	(1,274)	(1,449)
e) other services	(1,307)	(849)
Total	**(8,849)**	**(10,904)**

SECTION 3 - DIVIDENDS AND SIMILAR REVENUES – ITEM 70

3.1 DIVIDENDS AND SIMILAR REVENUES: COMPOSITION

	Total 30/06/2021		Total 30/06/2020	
	Dividends	Similar revenues	Dividends	Similar revenues
A. Financial assets held for trading	17	-	2	-
B. Other financial assets mandatorily measured at fair value	369	-	84	-
C. Financial assets measured at fair value through other comprehensive income	4,074	-	213	-
D. Equity investments	23,404	-	36,741	-
Total	**27,865**	**-**	**37,041**	**-**

Dividends received mainly regard:

- BCC CreditoConsumo €12.6 million;
- BCC Risparmio&Previdenza €7.9 million;
- BCC Gestione Crediti €0.9 million;
- BCC Solutions €2 million;
- Bank of Italy €3.8 million.

SECTION 4 - NET GAIN (LOSS) ON TRADING ACTIVITIES – ITEM 80

4.1 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	**146**	**9,680**	**(402)**	**(5,369)**	**4,056**
1.1 Debt securities	141	9,414	(184)	(5,306)	4,066
1.2 Equity securities	4	197	(117)	(41)	43
1.3 Units in collective investment undertakings	2	62	(101)	(22)	(59)
1.4 Loans	-	-	-	-	-
1.5 Other	-	6	-	-	6
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**	**(62,854)**
4. Derivatives	**203,590**	**54,559**	**(200,834)**	**(52,416)**	**68,801**
4.1 Financial derivatives:	203,590	54,559	(200,834)	(52,416)	68,801
- on debt securities and interest rates	202,873	54,549	(200,600)	(51,824)	4,997
- on equity securities and equity indices	718	10	(234)	(591)	(98)
- on foreign currencies and gold	X	X	X	X	63,901
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with fair value option	X	X	X	X	-
Total	**203,737**	**64,239**	**(201,236)**	**(57,784)**	**10,003**

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

5.1 GAIN (LOSS) ON HEDGING ACTIVITIES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
A. Gain on:		
A.1 Fair value hedges	99,140	17,986
A.2 Hedged financial assets (fair value)	22,270	48,768
A.3 Hedged financial liabilities (fair value)	644	187
A.4 Cash flow hedges	738	141
A.5 Assets and liabilities in foreign currencies	294	455
Total income on hedging activities (A)	**123,086**	**67,537**
B. Loss on:		
B.1 Fair value hedges	(44,795)	(48,407)
B.2 Hedged financial assets (fair value)	(77,104)	(20,089)
B.3 Hedged financial liabilities (fair value)	(102)	(149)
B.4 Cash flow hedges	-	(146)
B.5 Assets and liabilities in foreign currencies	(875)	(853)
Total expense on hedging activities (B)	**(122,876)**	**(69,644)**
C. Net gain (loss) on hedging activities (A - B)	**210**	**(2,107)**
of which: net gain (loss) of hedges of net positions	-	-

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

6.1 GAIN (LOSS) ON DISPOSAL OR REPURCHASE: COMPOSITION

	Total 30/06/2021			Total 30/06/2020		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortized cost	79,047	(25,966)	53,080	49,294	(1,352)	47,942
1.1 Due from banks	-	-	-	14	(1)	14
1.2 Loans to customers	79,047	(25,966)	53,080	49,280	(1,351)	47,929
2. Financial assets measured at fair value through other comprehensive income	2,444	(787)	1,657	2,359	(1,707)	652
2.1 Debt securities	2,444	(787)	1,657	2,359	(1,707)	652
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**81,491**	**(26,753)**	**54,737**	**51,653**	**(3,059)**	**48,594**
Financial liabilities measured at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	12	(68)	(56)	442	(72)	370
Total liabilities (B)	**12**	**(68)**	**(56)**	**442**	**(72)**	**370**

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	**905**	**69**	**(2,819)**	**(78)**	**(1,922)**
1.1 Debt securities	905	69	(2,819)	(78)	(1,922)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**1,150**	**-**	**(705)**	**-**	**445**
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	1,150	-	(705)	-	445
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**2,055**	**69**	**(3,524)**	**(78)**	**(1,477)**

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	**6,066**	**590**	**(8,411)**	**(25)**	**(1,779)**
1.1 Debt securities	249	-	(722)	(25)	(499)
1.2 Equity securities	3,680	-	(911)	-	2,769
1.3 Units in collective investment undertakings	2,133	590	(6,777)	-	(4,054)
1.4 Loans	5	-	-	-	5
2. Financial assets: foreign exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**6,066**	**590**	**(8,411)**	**(25)**	**(1,779)**

SECTION 8 - NET LOSSES/RECOVERIES FOR CREDIT RISK – ITEM 130

8.1 NET LOSSES/RECOVERIES FOR CREDIT RISK IN RESPECT OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: COMPOSITION

	Losses (1)			Recoveries (2)		Total	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	30/06/2021	30/06/2020
A. Due from banks	**-**	**-**	**-**	**3,596**	**-**	**3,596**	**(2,832)**
- loans	-	-	-	3,033	-	3,033	(2,837)
- debt securities	-	-	-	563	-	563	6
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**(20,913)**	**(6,190)**	**(52,475)**	**28,747**	**28,526**	**(22,305)**	**(6,498)**
- loans	(16,812)	(6,190)	(52,475)	28,475	28,526	(18,476)	(1,122)
- debt securities	(4,100)	-	-	272	-	(3,829)	(5,376)
of which: receivables purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**(20,913)**	**(6,190)**	**(52,475)**	**32,342**	**28,526**	**(18,709)**	**(9,330)**

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	Total
		Stage 3					
	Stage 1 and 2	Writeoffs	Other	Stage 1 and 2	Stage 3	30/06/2021	30/06/2020
A. Debt securities	-	-	-	532	-	532	(1,885)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**532**	**-**	**532**	**(1,885)**

SECTION 10 - ADMINISTRATIVE EXPENSES – ITEM 160

10.1 PERSONNEL EXPENSES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
1) Employees	(99,600)	(81,828)
a) wages and salaries	(64,977)	(53,881)
b) social security contributions	(16,060)	(15,053)
c) termination benefits	(1,164)	(1,132)
d) pension expenses	-	-
e) allocation to employee termination benefit provision	(24)	(198)
f) allocation to provision for post-employment benefits and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(5,557)	(5,133)
- defined contribution	(5,557)	(5,133)
- defined benefit	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-
i) other employee benefits	(11,817)	(6,430)
2) Other personnel	(159)	(178)
3) Board of Directors and members of Board of Auditors	(1,575)	(1,630)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	3,278	3,756
6) Reimbursement of expenses for third-party employees seconded to the Company	(426)	(1,418)
Total	(98,482)	(81,298)

The change mainly reflects affected by the acquisition of personnel from the IBI branch and from the federations. The increase was partially offset by the transfer of employees from IB to BCC SI following the transfer of IT operations.

10.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
Information technology	(58,581)	(4,025)
Property and movables	(21)	(713)
- rental and fees	(21)	(713)
Goods and services	(2,390)	(3,380)
- telephone and data transmission	(752)	(1,537)
- asset transport and counting	(407)	(99)
- transportation and travel	(1,184)	(1,314)
- office supplies and printed materials	(48)	(429)
Professional services	(12,722)	(7,612)
- professional fees (other than audit fees)	(12,468)	(7,343)
- audit fees	(254)	(268)
Administrative services	(8,256)	(9,816)
Insurance	(1,171)	(379)
Promotional, advertising and entertainment expenses	(583)	(1,193)
Association dues	(615)	(1,419)
Donations	-	(493)
Other	(14,169)	(10,714)
Indirect taxes and duties	(30,690)	(32,140)
- stamp duty	(148)	(1,180)
- long-term loan tax - Pres. Decree 601/73	-	-
- municipal property tax	-	-
- financial transaction tax	(129)	-
- other indirect taxes and duties	(30,413)	(30,960)
Total	**(129,198)**	**(71,884)**

The increase in Other administrative expenses reflects in part the increase of €23.5 million in IT costs (the figure at June 30, 2020 reflected the IFRS 5 reclassification of ICT operations) and costs in respect of services to the mutual banks sold by IBI connected with MCC servicing operations in the amount of about €6 million. The general increase in the item was partially offset by the residual value in 2021 of prior-year expenses, which in 2020 had amounted to €7.5 million, and the contribution to the National Resolution Fund (BRRD), down €2 million.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

11.1 NET PROVISIONS FOR CREDIT RISK IN RESPECT OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED: COMPOSITION

	30/06/2021		
	Provisions	Reversals	Total
Commitments to disburse funds Stage 1	(347)	578	230
Commitments to disburse funds Stage 2	(1,346)	3,213	1,866
Commitments to disburse funds Stage 3	-	6	6
Financial guarantees issued Stage 1	(1,592)	1,708	116
Financial guarantees issued Stage 2	(1,608)	5,529	3,921
Financial guarantees issued Stage 3	(241)	2,895	2,654
Total	**(5,135)**	**13,929**	**8,794**

Provisions and reversals also include the effect of the passage of time (discounting effect). For further details on the impairment model adopted by the Bank and used to determine the net provisions shown in the table, see Part A “Accounting Policies” of the notes to the financial statements.

11.3 NET PROVISIONS FOR OTHER RISKS AND CHARGES: COMPOSITION

	30/06/2021		
	Provisions	Reversals	Total
Legal disputes	(117)	267	149
Other	(488)	85	(403)
Total	**(605)**	**352**	**(253)**

SECTION 12 - NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT - ITEM 180

12.1 NET ADJUSTMENTS OF PROPERTY, PLANT AND EQUIPMENT: COMPOSITION

	Depreciation	Writedowns for impairment	Writebacks	Net adjustments
	(a)	(b)	(c)	(a + b - c)
A. Property, plant and equipment				
A.1 Operating assets	(1,054)	-	-	(1,054)
- owned	(35)	-	-	(35)
- right-of-use assets acquired under leases	(1,020)	-	-	(1,020)
A.2 Investment property	-	-	-	-
- owned	-	-	-	-
- right-of-use assets acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**(1,054)**	**-**	**-**	**(1,054)**

SECTION 13 - NET ADJUSTMENTS OF INTANGIBLE ASSETS - ITEM 190

13.1 NET ADJUSTMENTS OF INTANGIBLE ASSETS: COMPOSITION

	Amortization (a)	Writedowns for impairments (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned	(237)	-	-	(237)
- generated internally by the Bank	-	-	-	-
- other	(237)	-	-	(237)
A.2 Right-of-use assets acquired under leases	-	-	-	-
Total	**(237)**	**-**	**-**	**(237)**

SECTION 14 - OTHER OPERATING EXPENSES - ITEM 200

14.1 OTHER OPERATING EXPENSES: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
Charges connected with lease services (consultants, insurance, taxes and duties, capital losses)	-	-
Reductions in assets and prior-year expenses not attributable to separate line item	-	-
Costs of outsourced services	-	-
Settlement of disputes and claims	-	-
Amortization of expenditure for leasehold improvements	-	-
Other charges – extraordinary transactions		-
Other charges	(1,632)	(835)
Total	**(1,632)**	**(835)**

14.2 OTHER OPERATING INCOME: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
A) Recoveries	**15,122**	**14,098**
Recovery of taxes	98	67
Recovery of sundry charges	15,008	14,031
Insurance premiums	-	-
Property rental income	-	-
Recovery of costs from customers	-	-
Recovery of costs on bad debts	16	-
B) Other income	**74,350**	**54,868**
Insourcing revenues	57,729	53,774
Property rental income	-	-
Reductions in liabilities and prior-year income not attributable to separate line item	74	350
Other income from finance leases	-	-
Other income	16,547	744
Fees and commissions on accelerated application processing	-	-
Total	**89,472**	**68,966**

The increase in other operating expenses/income was mainly attributable to an increase in revenues from services rendered to the affiliated mutual banks. Class 1 services increased by +€3 million (from €30 to €33 million), Class 2 services increased by +€5.9 million (from €20.6 to €26.5 million) and Planning Services increased by +€2.5 million (from €12.5 to €15.0 million). The contribution provided by Centralized Services increased by €2 million (from €0.5 to €2.5 million) and that from re-invoicing of Risk Management services rose by €1.3 million.

SECTION 15 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 220

15.1 PROFIT (LOSS) FROM EQUITY INVESTMENTS: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
A. Income	**12,011**	**-**
1. Revaluations	-	-
2. Gains on disposal	12,011	-
3. Writebacks	-	-
4. Other income	-	-
B. Expenses	**-**	**(25,540)**
1. Writedowns	-	-
2. Impairment losses	-	(25,540)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**12,011**	**(25,540)**

The amount at June 2021 regards the gain on the sale of the investment in Satispay for a total of €12 million, while the amount at June 2020 was entirely attributable to the impairment recognized on the investments in Iccrea BancaImpresa and Banca Sviluppo, totaling €25.5 million.

SECTION 19 - INCOME TAX EXPENSE FROM CONTINUING OPERATIONS – ITEM 270

19.1 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
1. Current taxes (-)	(6,747)	1,630
2. Change in current taxes from previous period (+/-)	1	(85)
3. Reduction of current taxes for the period (+)	4,546	4,052
3.bis Reduction of current taxes for the period for tax credits under Law 214/2011 (+)	92	185
4. Change in deferred tax assets (+/-)	(11,105)	(395)
5. Change in deferred tax liabilities (+/-)	-	-
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(13,214)**	**5,387**

SECTION 20 - PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX: COMPOSITION

	Total 30/06/2021	Total 30/06/2020
1. Revenue	185,993	171,423
2. Expense	(170,408)	(197,592)
3. Result of measurement of groups of assets and associated liabilities	1	(3)
4. Gain (loss) on realization	-	-
5. Taxes and duties	(4,546)	(4,052)
Profit (loss)	**11,040**	**(30,224)**

The figures reflect the balance of revenues and expenses from the e-money business, while at June 30, 2020 they were attributable to both e-money and IT operations.

PART D – COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME

		30/06/2021	30/06/2020
10.	**Net profit (loss) for the period**	**81,166**	**(6,207)**
	Other comprehensive income not recyclable to profit or loss	**3,926**	**(5,044)**
20.	Equity securities designated as at fair value through other comprehensive income:	5,870	(7,528)
	a) fair value changes	5,467	(7,528)
	b) transfers to other elements of shareholders' equity	403	-
30.	Financial liabilities measured at fair value through profit or loss (change in credit risk):	-	-
	a) fair value changes	-	-
	b) transfers to other elements of shareholders' equity	-	-
40.	Hedges of equity securities designated as at fair value through other comprehensive income:	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined-benefit plans	(4)	(7)
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	(1,940)	2,491
	Other comprehensive income recyclable to profit or loss	**5,830**	**926**
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:	10,420	404
	a) fair value changes	10,522	(347)
	b) reversal to income statement	(102)	752
	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:	(1,447)	47
	a) fair value changes	84	(2,198)
	b) reversal to income statement	(1,532)	2,245
	- adjustments for credit risk	(532)	1,885
	- gain/loss on realization	(1,000)	360
	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	(3,143)	474
190.	**Total other comprehensive income**	**9,755**	**(4,118)**
200.	**Comprehensive income (item 10+190)**	**90,922**	**(10,325)**

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.

In April 2021, a revision of the organizational structure of the CRO area approved by the Board of Directors of the Parent Company in February 2021 took effect. This organizational fine-tuning was part of the continuation of the overall finalizing of the structure of the CRO area and was intended to incorporate lessons learned by the function in the two years since the start of the Group with regard to the overall operating model of the Risk Management function. Accordingly, the current organizational structure envisages:

- a "Risk Governance & Strategy" unit that oversees all risk governance and risk strategy issues for the Group in respect of the affiliated banks, the companies within the direct scope and the Parent Company, including the management of the EWS and stress testing framework for the purposes of the Guarantee Scheme, and performs activities connected with the preparation of the area's annual activity plan and the institutional reporting document submitted to the corporate bodies and the supervisory authorities. The unit is also responsible for coordinating and monitoring strategic projects for the CRO area. This unit is sub-divided into the following organizational units:
  - "EWS & Stress Test SDG", which performs all activities connected with the EWS and the Guarantee Scheme. More specifically, the Early Warning System (EWS) regulates the governance mechanisms between the corporate bodies of the banks and the corporate bodies of the Parent Company and is the tool used to monitor the organization and the financial position and performance of the affiliated Banks, in the interest of their stability and their sound and prudent management. The EWS defines internal operating rules and areas of assessment that, using specific indicators and coded evaluation processes, make it possible to classify the affiliated banks in relation to their riskiness. Each affiliated bank is classified into one of seven risk levels attributable to three overall risk situations ("ordinary", "strain", "critical"), which are associated with specific responses of the Parent Company that are graduated in relation to the management constraints associated with the measures ("ordinary", "coordinated" and "controlled" management). The intervention measures associated with the EWS indicators therefore form an integral part of the strategic/operational plans defined on an individual basis and are implemented by the affiliates involved when preparing the individual RAS, in particular with regard to the definition of the levels of risk propensity/target (risk appetite) and the maximum tolerated and permitted exposure (risk tolerance and risk capacity, respectively). Together with the other structures of the Risk Management function, the unit also contributes to the performance of stress testing connected with the assessment of the vulnerability of each affiliated bank and used in (i) the definition of the early warning levels and (ii) the determination of the amount of Readily Available Funds to support the Guarantee Scheme;
  - "BCC Risk Governance", which, in close collaboration with the Mutual Bank Risk Management units (Northern Area, Central Area, Southern Area) and in concert with the other competent units of the Risk Management function, (i) develops the Risk Appetite proposal for the affiliated banks with the related limits and triggers broken down into risk categories by operational and business segment. It supports the Group Risk Governance & RM SPD unit in the definition and maintenance of the methodological framework of the Group Risk Governance processes (RAF/RAS, analysis and assessments connected with capital adequacy, stress testing, OMR and incentive system), as well as in the definition of the guidelines to support the preparation of the annual plans and the respective institutional reports of the activities of the Risk Management functions of the individual mutual banks and, in close collaboration with the Mutual Bank Risk Management units, the efficient and effective operational implementation within the affiliated banks. The unit also supports the Group Risk Management unit in the definition and maintenance of the methodological framework for specific risks, as well as in the related assessment and monitoring activity, in order to enable efficient and effective operational implementation within the affiliated banks and identify any risk mitigation measures required. The unit also has Risk Management Specialists who provide support to the Mutual Bank RM units (Northern Area, Central Area, Southern Area) and to the risk managers of the affiliated banks for the implementation and application of the risk management framework

and the correct and uniform performance of the related risk management activities in compliance with the qualitative and quantitative standards dictated by the Parent Company;

- a "*Group Risk Governance & RM SPD*" unit, which defines and maintains the methodological framework of the Group's Risk Governance processes (RAF/RAS, ICAAP, Recovery Plan, stress testing, OMR, incentive system). In performing these tasks, the unit covers the Group and the companies within the direct scope, in close collaboration with the Planning & Management Control unit and in concert with the other competent units of the Parent Company's Risk Management function and, with regard to the affiliated banks, in collaboration with the Mutual Bank Risk Governance unit. It also represents the top management structure for the Risk Management departments of the companies within the direct scope, whose centralization within the Parent Company under outsourcing arrangements was completed during the first quarter of the year, and is responsible for performing the outsourced activities, coordinating with the function managers of the individual companies involved (risk managers of the direct scope companies);

- a "*Group Risk Management*" unit, which (i) supervises and coordinates the organizational units dedicated to the individual risk categories, which within their areas of responsibility are involved in the development and maintenance of the methodological framework for the estimation, integration and management of specific risks, (ii) supports the process of defining the Group risk appetite, identifying any risk mitigation measures where necessary and/or advisable and (iii) develops Group-level stress testing exercises and (iv) contributes to the preparation of the Group restructuring plan;

- a "*Mutual Bank Risk Management*" unit, which represents the "control center" for the risk profile of the individual affiliated banks, representing the top management structure for the local Risk Management units. Local risk managers report to the unit through the Mutual Bank RM units (Northern Area, Central Area, Southern Area). It coordinates communication with the other specialized units of the Risk Management function. The Mutual Bank RM units (Northern Area, Central Area, Southern Area) have organizational responsibility for the overall execution of the Risk Management activities outsourced for the macro-area, and therefore represent the top management structure for the Risk Management controls of the area, which is responsible for the execution the outsourced second-level control activities for risk management, coordinating the managers in charge of the Risk Management functions of the affiliated banks;

- a "*Validation and Support for Cross-Functional Activities*" unit: reporting directly to the CRO, this unit validates models developed internally to quantify the risks to which the Group is exposed and operates as a transversal support center, ensuring and promoting coordinated management of the operational and liaison mechanisms between the units of the Risk Management function.

The main duties performed by the Risk Management function are the following:

- defining and developing the framework for the assumption and management of risks pertaining to the Group, which is composed of (i) organizational structures and corporate processes (operating, administrative and business), including line controls; (ii) risk governance policies (policies, limits, responsibilities); and (iii) methodologies and risk measurement and assessment criteria. In this area, the Risk Management function ensures that the framework for the assumption and management of risks is compliant with applicable regulations, in line with market best practice, functional in respect of internal operational conditions and consistent with the business plan, the budget and the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Group;

- developing the Risk Appetite Framework and its operational implementation (the Risk Appetite Statement) at the consolidated level and, with the support of the affiliated banks and Group companies, at the individual level, consistent with capital adequacy objectives (ICAAP) and the adequacy of the liquidity profile (ILAAP) of the Group;

- monitoring the risk profile of the individual affiliated banks with the appropriate territorial organization of risk management arrangements and the Early Warning System (EWS) and the Guarantee Scheme. In this area, the Risk Management function:
  - handles the development and updating of the methodological framework and develops tools for managing the Guarantee Scheme, as well as assessing, classifying and monitoring the affiliated banks within the scope of EWS management processes;
  - is responsible, through the action of its local units as well, for the determination and adoption by each affiliated bank of strategies, policies and principles for the assessment and measurement of the risks identified at the Group level.

- monitoring developments in the risk profile and the various types of risk to which the Group as a whole and its individual members are exposed, verifying the ongoing consistency between the actual risk assumed and the specified risk objectives. In this context, the Risk Management function:
  - develops methodologies and models for measuring and assessing risks, validating those models, periodically checking their operation, predictive capacity and performance, and their consistency over time with operational practices and regulatory requirements;
  - performs second-level controls of the appropriateness, effectiveness and resilience of the framework for the assumption and management of the risks for which it is responsible, identifying any needs for fine tuning/corrective or evolutionary maintenance and providing support – within the scope of its duties – in implementing the associated actions;

- identifies any risk developments exceeding the limits set out in the Risk Appetite Statement, in the Risk Governance Policies or in external regulations and, in general, potentially harmful or unfavorable situations in order to assess possible mitigation initiatives to implement;
- analyzes major transactions, expressing a prior opinion on their consistency with the Risk Appetite Statement and Group policies in this area;
- assesses, within the scope of its duties, the capital structure in relation to the risks assumed/assumable (ICAAP) and the appropriateness of the Group's liquidity profile (ILAAP);
- assesses the impact of especially serious events on the Group's exposure to risk and participates in developing strategies to be implemented for the restructuring plan and within resolution procedures;
- reports to top management on risk developments in the various operating segments and business areas, providing support to management bodies in defining and implementing strategic policy and risk policy and the associated implementation of those policies;
- within the scope of its duties, it performs tasks required for the purpose of supervisory reporting, inspections and regulations.

THE RISK CULTURE

The Group devotes special attention to managing, assessing and understanding risk. All personnel are asked to identify, assess and manage risk within their area of responsibilities. Each employee is expected to perform their duties seriously and with awareness.

The risk culture is inspired by the principles of the risk management model of the Parent Company. It is disseminated to all business units and personnel and is founded on the following pillars:

- the independence of risk functions from business units;
- the establishment and constant updating of risk handbooks and policies;
- 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 Mutual Banking Group as a group whose participatory mechanisms are based on a Cohesion Contract, signed by the banks, that provides for internal stability mechanisms characterized by intercompany mutual support agreements regulated specifically by applicable external legislation.

Accordingly, the complex reference framework that characterizes typical risk governance models and processes reflects and incorporates these specific features by way of the close integration of those models and processes, using shared metrics and efficient and effective operational mechanisms to support the implementation of roles and functions for policy-setting, coordination and control by the Parent Company for all of the participating banks/companies.

The Risk Appetite Framework (RAF) defined and adopted by the Iccrea Mutual 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 Mutual Banking Group, as discussed in the report on operations.

SECTION 1 – CREDIT RISK

QUALITATIVE DISCLOSURES

1. GENERAL ASPECTS

In accordance with the organizational model established at the Iccrea Mutual Banking Group level to govern and manage risks, credit risk is managed with an integrated series of processes and associated responsibilities defined within company units and regulated with a comprehensive set of internal rules for credit risk.

As Parent Company, Iccrea Banca coordinates and directs the credit risk assumption policies of the individual companies and affiliated banks. More specifically:

- the lines of development for the Group activities are defined in the Strategic Plan and then incorporated in the annual budgets of the individual entities, in agreement with the Parent Company;
- the Risk Management function supports the risk assumption phase (policy, assessment and pricing models, quality control, strategic policy analysis) and management (identification, measurement/assessment, monitoring/reporting, mitigation) of the credit risk exposure of the Parent Company and all the Group companies.

This model also relies on the current governance structure, which provides for organizational separation between the units responsible for the operational management of lending (the Chief Lending Officer area, hereinafter also the CLO area) and control units (under the Risk Management function).

With regard to management of lending, the mechanisms for interaction between the Parent Company and the Group companies - defined on the basis of the Cohesion Contract – comprise specific credit governance rules, which on the one hand govern the related responsibilities and on the other ensure the compliance of the credit risk framework with the applicable regulatory framework to which the Parent Company is subject.

With regard to the management and coordination role, which is also being implemented in accordance with the principles envisaged in the Cohesion Contract, the Parent Company assumes responsibility for the following areas: lending rules (principles, policies and processes), credit strategies and credit risk limits, management of large exposures, guidelines for the main credit product categories by customer segment, the monitoring and reporting of portfolio credit risk.

In line with these credit governance rules, the Group companies must request the opinion of the CLO area ("credit opinion") before approving new credit lines or significant modifications to existing positions with individual counterparties/groups of connected clients if those facilities exceed predetermined amount thresholds both in absolute value considering the overall risk exposure of the Group and with regard to compliance with credit risk concentration limits relation to the own funds of the individual Group bank.

The mapping of groups of connected clients, which seeks to identify and assess legal and financial connections between clients is conducted in accordance with principles and rules valid for the entire Banking Group and with the most recent regulatory guidelines in this field (EBA guidelines on connected clients, EBA/GL/2017/15).

2. CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANIZATIONAL ASPECTS

Credit risk represents the preponderant component of the overall risks to which the Group is exposed, considering that credit exposures account for a dominant share of assets.

In light of this circumstance and in compliance with the applicable provisions concerning the internal control system (see Circular No. 285/2013, Part One, Title IV, Chapter 3), Iccrea Banca has adopted a governance structure and operational arrangements to ensure the adequate monitoring of credit risk at the Group level in the various phases of the process.

Moreover, in relation to the application of the provisions of IFRS 9 and the related initiatives to ensure their implementation, especially as regards the classification and measurement of credit exposures, the Group further strengthened its risk management arrangements, with particular regard to the definition of credit classification and measurement policies, as well as the development of a structured framework of second-level controls of credit exposures, with particular regard to impaired positions.

The entire credit management and control process is governed by internal rules that also define risk control, management and mitigation activities, developing a structured system involving the various organizational units.

The Parent Company, in exercising the powers of strategic management and coordination granted to it under provisions of the Cohesion Contract, defines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level. With particular regard

to the lending process, the Parent Company defines guidelines for the credit approval process and the management of the associated risk (management of guarantees, including real estate, monitoring of exposures, classification of risk positions, management and measurement of impaired exposures).

From an organizational point of view, the CLO area assumes responsibility on behalf of the Parent Company and the companies in the direct scope of consolidation (directly owned by the Parent Company) for the supervision of all phases of the lending process - from loan approval to the management of non-performing positions – and for the performance of management and coordination activities with respect to the affiliated banks. It is also responsible for overseeing credit quality, defining lending policies and verifying their application.

The main activities of the lending process performed by the CLO area are:

- issuing guidelines for the definition of the loan management model, issuing guidelines for the loan approval and disbursement process, and finalizing and defining/developing the lending authority model for the decision-making bodies;
- approving the general and specific exceptions for Group companies with respect to Group guidelines on customer segments/credit products;
- monitoring the Group's performing portfolio by analyzing and monitoring existing exposures and by issuing opinions (credit opinions) on credit exposures that exceed specified limits;
- defining the framework for assessing the creditworthiness of corporate, retail and banking counterparties;
- assessing the creditworthiness of banks and financial institutions to which the Parent Company and the companies in the direct scope of consolidation have granted credit;
- performing activities connected with the operational management of the rating models, carrying out rating overrides and providing assistance to Group companies in relation to the general principles and the reasons for the ratings assigned to individual counterparties.

With regard to credit monitoring, in addition to the definition of guidelines at Group level and the minimal set of early warning indicators for the interception and management of positions to be "monitored", the CLO area monitors the positions of the Parent Company and the companies within the direct scope of consolidation that present an increase in credit risk, as well as examining the correct execution of the process implemented by the affiliated banks. Furthermore, the CLO area monitors the "most relevant" positions.

As part of the second-level controls, the Risk Management function has defined the overall methodological and operational framework in this area. It is applicable to the entire Group. The framework, which is governed with a specific body of regulatory and process documentation, covers all the activities and controls aimed at verifying, on a periodic basis, the appropriateness of the classifications of exposures, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

More generally, the Risk Management function oversees the risk management of the individual entities from a consolidated and individual perspective:

- overseeing the measurement of credit risk from a current and forward-looking perspective, considering both conditions of normal operations and stress scenarios;
- monitoring the capacity of the risk limits, including those defined within the RAF/RAS with regard to the associated credit risk metrics;
- defining and updating the methods and measurement models for credit risk, including those used in the performance of credit stress tests, ensuring their ongoing compliance with regulatory developments and market best practice.

2.2 MEASUREMENT, MANAGEMENT AND CONTROL SYSTEMS

IDENTIFICATION OF RISKS

As noted in the previous section, in compliance with the provisions of Circular no. 285/2013 of the Bank of Italy as updated, the Parent Company determines the strategies, policies and principles for assessing and measuring risks for the Group and ensures the consistency of the internal control systems of the affiliated banks with the strategies, policies and principles established at the Group level, thus exercising the powers of strategic management and coordination aimed at ensuring the unity of the Group's strategic management and control system, as governed by the Cohesion Contract.

With particular regard to the lending process, the Parent Company governs lending and the management of the related risk. This also comprises the management of guarantees, including real estate, exposure monitoring, the classification of risk positions, and the management and valuation of impaired exposures.

In all of these phases, the Group uses qualitative and quantitative methods for assessing counterparty creditworthiness, supported by IT procedures that undergo periodic verification and maintenance.

With specific reference to the loan approval phase, the Group rules establish the key principles underpinning all phases of the process of approving/renewing loans, together with the roles and associated responsibilities of the various actors involved, specifying the procedures through which the Group intends to assume credit risk in respect of its customers, i.e. by identifying eligible counterparties and the admissible technical forms of credit for each customer segment.

In this specific context, a direct assessment is carried out to ascertain the needs and requirements of the applicant and therefore the purposes of the credit line and to accurately assess the credit risk profile: granting a loan requires an in-depth analysis of the risk associated:

- with the counterparty as well as the economic context in which it operates;
- with the purpose and characteristics of the transaction to be financed;
- with the guarantees available;
- with other forms of credit risk mitigation.

The analysis of the counterparty is conducted by each bank so as to assess the overall profitability of the relationship using the associated valuation tools/models. The assessment of creditworthiness focuses, in turn, on an analysis of the borrower's ability to repay, without prejudice to the principle that credit can only be granted if it is clear how it will be repaid.

Without prejudice to the prudential limits set by applicable regulations, which are commensurate with own funds with regard to both the magnitude of the exposure to the individual counterparty and the total amount of larger exposures, the credit strategies provide for risk limitations on the basis of specific elements, such as, for example, the nature of the transaction (e.g. transactions intended to finance real estate whose repayment will be financed by sale or lease), the situation of the specific real estate market (type of asset, economic sector, geographical area, market demand, etc.), a current and forward-looking evaluation of the asset, the accurate quantification of timing and costs of carrying out the initiative.

In general, given the recent establishment of the Iccrea Mutual Banking Group, the management, measurement and control systems at the individual affiliated mutual banks are being developed to adapt them to the new consolidated context and evolve them in accordance with industry best practice. In this direction, Group policies were issued for all phases of the lending process and, therefore, the granting and disbursement of credit, management of guarantees, loan monitoring, loan classification, assessment of impaired positions, management of substandard positions and NPLs.

As noted earlier, the central moment of the preliminary phase of the lending process is that linked to the assessment and measurement of the credit risk of the transaction in question. The assessment is based on qualitative/quantitative information and is typically supported by the use of automated rating/scoring models designed to measure the creditworthiness of the counterparty and/or the possibility of proceeding with the transaction.

Ratings plays a key role lending, as they represent an essential element of the assessments made during the loan approval, review and renewal processes. The rating assignment involves an analysis of all the quantitative and qualitative information available to support the application approval process in order to accurately assess the risk profile of the transaction and to monitor the creditworthiness of existing counterparties over time.

For the companies in the direct scope of consolidation, the rating and scoring systems are already fully integrated into credit processes. Lending policies already provide indications concerning the minimum level of the decision-approval bodies - based on the technical form of financing, the guarantees securing the loan and the counterparty rating - and the related mechanisms for exceptions, which are granted and monitored by the Parent Company. Affiliated mutual banks have rating systems to support the loan approval/management process. In view of the recent establishment of the Group and the different information systems used by the mutual banks, a number of activities are being completed to integrate ratings in all the processes of the Group companies.

The evaluation models in use take into consideration:

- the specific features of the different types of counterparties, with particular reference to the Corporate segment (companies/producer households), Retail (consumers) and Institutional (bank counterparties);
- the specific features of the product involved, distinguishing between short, medium and long-term types of credit, or specialized technical forms (leases, factoring, consumer credit).

In general, the evaluation models use all the available updated information on the counterparty/transaction, drawn both from external sources (e.g. the Bank of Italy Central Credit Register and similar association databases, credit bureaus, financial statements, registry events) and internal sources (internal performance information).

The Group adopts a counterparty approach in assigning ratings except in specific cases in which the counterparty assessment is supplemented by a product-perspective evaluation, in consideration of any special features of a business. Using rating/scoring models, the Group assigns the counterparty a representative credit rating, adopting an on-line processing procedure, which is typically accessed through the electronic application processing system but also in batch mode, with the latter being adopted for periodic updating of ratings for all Bank customers (the loan position performance rating).

In compliance with the supervisory provisions governing the correct identification of the risk assumed, or to be assumed, in respect of a "group

of connected clients", any legal or economic connections between clients are detected and evaluated by those responsible for analyzing creditworthiness during the application assessment phase of the lending process.

These objectives are achieved through an analysis that involves the acquisition of all available information such as financial statements, where available at Group level, or aggregated financial statements of the main entities involved, for subsequent processing, ad hoc information on intercompany items of a financial and operating nature that may not be reported in the financial statements, or on operating flows between Group companies, on the presence of centralized treasury operations and, more generally, on the activities, the market and the competitors of the Group and all entities connected with it.

The monitoring process envisaged by the model is independent with respect to classification status (for example, a position on which payments are being made regularly but has been classified as unlikely to pay due to another non-performing exposure in the system). It is based on the following:

- the use of early warning indicators that permit timely detection of risk signals;
- the definition and attribution of responsibilities in the monitoring process;
- the definition and execution of risk mitigation actions;
- the generation of appropriate information flows between the bank and the Parent Company.

More specifically, within the process we distinguish:

- a phase in which early warning signals are identified, using risk indicators to detect exposures affected by an appreciable increase in credit risk in order to analyze their risk profile and take appropriate management actions;
- a management phase, aimed at examining the identified positions and taking, where necessary, specific management actions in order to promptly mitigate the risk of a deterioration in the position.

The identification of the positions under observation, using IT support procedures, can be carried out manually (i.e. based on the "manual" acquisition of information about, for example, significant changes in the corporate group to which the counterparty belongs, failure to comply with covenants, voluntary declarations of difficulties made by the counterparty, news reports, etc.), or using automated processes, i.e. procedures based on a set of indicators (from external or internal sources, regarding the relationship between the bank and the counterparty, or the capital structure and financial resources of the latter) that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship.

Automated identification must be based on a set of indicators that enable the timely detection of signs of distress and permit an assessment of the riskiness of the relationship (directly related to the client's relationship with the Bank or the client's financial structure, based on data from external or internal sources). These indicators are differentiated on two levels (1 and 2) that indicate an increasing degree of risk, In the case of level 2 indicators, the position undergoes an analysis of counterparty creditworthiness, which may involve a re-examination of the borrower, in order to verify the capacity of the client to honor its commitments through to full repayment.

The process of managing "watchlist" exposures therefore enables the analysis of the risk profile of "watchlist" counterparties and the definition of appropriate management actions in the context of the monitoring processes with a view to returning the position to normal status or mitigating the risk connected with the exposure.

RISK MEASUREMENT AND ASSESSMENT

For the purpose of calculating prudential requirements for credit risk, the Group uses the standardized approach envisaged under prudential regulations (Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013 - CRR).

The adoption of the standardized approach to determine the capital requirement against credit risk involves the subdivision of exposures into portfolios and the application of differentiated prudential treatments to each, possibly using assessments of creditworthiness (external ratings) issued by external agencies (ECAI) or by export credit agencies (ECA) recognized for prudential purposes on the basis of the provisions of Regulation (EU) 575/2013.

Depending on the type of counterparty and the sector in which it operates, the Group's operations also open it to the risk of being excessively exposed to an individual counterparty (single name) or a specific sector/geographical area (geo-sectoral).

For the purposes of determining internal capital for concentration risk for individual counterparties or groups of connected clients, the Group uses the regulatory granularity adjustment (GA) algorithm, based on the Herfindahl index. In accordance with regulatory provisions, the reference portfolio consists of on-balance-sheet and off-balance sheet exposures (the latter considered at their credit equivalent amount) falling within the regulatory portfolios "corporates and other borrowers", "short-term exposures to corporates" and exposures to corporates included in the asset classes "in default", "secured by real estate", "equity exposures" and "other exposures".

Furthermore, for the purpose of quantifying geo-sectorial concentration risk, the Group adopts the methodology developed by the "Geo-Sectoral Concentration Risk Laboratory" of the Italian Banking Association (ABI), which sets geographical and product categories against a

national asset allocation benchmark.

The Group periodically performs stress tests for credit and concentration risks in order to assess - in terms of potential losses - the impact of expected risk developments on the financial profile of the Group and the individual entities under both normal and adverse operating conditions.

The stress test methods are based on regulatory practices and are applied in various management and risk governance processes, starting with the capital adequacy assessment process (ICAAP), as well as in the performance of supervisory exercises.

The methodological and calculation structure of credit stress tests is based on the use of internal risk models and parameters and incorporates a credit risk projection approach (transitions between stages/risk states) and determination of related losses over the scenario years (12-month or lifetime expected credit loss) based on the measurement of IFRS 9 impairment.

The projections of the estimates for the scenario years are performed considering the macroeconomic scenario assumptions in the adopted scenarios (in baseline or adverse conditions), using internally developed models ("satellite" models), which estimate the relationship between risk factors and developments in macroeconomic variables.

The sensitivity analysis of the expected credit loss (ECL) metrics was performed by the Parent Company at the consolidated level pursuant to IFRS 9 for 2020. This analysis was carried out on a sub-portfolio of performing loans and securities representative of the Group, given the general similarity of the nature, characteristics and composition of the portfolio across the various entities of the Iccrea Mutual Banking Group, increasing the probability of occurrence of the worst macroeconomic scenario used at the end of 2020 for the determination of the ECL by 50%. The results show that, at the consolidated level, this simulated measure (based on the conditions prevailing at the reporting date) shows an increase in the average portfolio coverage of 5.6 bps compared with that at December 31, 2019.

With regard to stress testing of single-name concentration risk, the granularity adjustment approach is applied using the PD determined in the adverse scenario, while for the purpose of quantifying the geo-sectorial concentration risk in stress conditions, the calculation provides for an increase in the exposure to the sector (ATECO classification) with the greatest concentration, in addition to the corresponding level of risk tolerance defined in the RAS framework.

RISK MONITORING AND CONTROL

In accordance with supervisory regulations (Bank of Italy Circular no. 285/2013), the Risk Management function performs - at both the consolidated and individual legal entity levels – second-level control activities to verify the adequacy, effectiveness and consistency over time of policies and limits, processes and delegated powers with regard to the credit risk management process, recommending any necessary adjustments in coordination with the operating units. These activities are accompanied by the ongoing controls of the Risk Management function through analysis of developments in the exposure to credit risk of the Group as a whole and of the individual entities.

The Internal Audit unit performs third-level controls, verifying the adequacy and comprehensiveness of the processes and activities performed by the relevant units, the consistency and validity of the analyses performed and the associated findings.

The locus of the strategic and operational management of credit risk is the Group's Risk Appetite Statement, through a comprehensive system of risk objectives and limits (appetite, tolerance and capacity) at both the consolidated and individual entity levels, with compliance ensured by the monitoring and control activities of the function.

Monitoring and reporting on the credit risk profile is characterized by activities that involve both the business functions and the control functions, in accordance with their respective responsibilities. In particular, monitoring is ensured both by aggregate portfolio performance analyzes and by analyzes carried out on individual positions.

The Risk Management function monitors the credit risk profile – at both the consolidated and individual affiliated bank and Group company level, using an analytical framework and related reporting based on a system of key risk indicators. It is designed to monitor the loan portfolio, at both the time exposures are taken on and during their lifetime, the outcomes of which are reported regularly to top management. In this context, the analytical methods and the related reporting undergo constant fine-tuning in order to represent the drivers underlying developments in credit risks in an ever more effective manner, reflecting changes in the regulatory environment as well as management requirements and to support decision-making.

As noted earlier, Risk Management developed the Group second-level control framework, which comprises control activities aimed at ascertaining, on a periodic basis, the consistency of exposure classifications, the adequacy of provisions and the effectiveness of the recovery process for the loan portfolios of each individual company and affiliated bank.

The control methods envisaged by the framework, the first operational application of which was launched at the end of the first half of the year for the entire Group, undergo constant refinement and evolution, with a view to directing second-level controls ever more effectively in response to developments in the credit risks of the Group.

2.3 METHODS FOR MEASURING EXPECTED LOSSES

Iccrea Banca 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.

In accordance with the standard, the Iccrea Group allocates each asset/tranche to one of the following three stages:

- stage 1, which includes all performing positions/tranches that at the reporting date meet the condition for the low credit risk exemption or that do not show a significant increase in credit risk with respect to the level measured at the date of disbursement or purchase;
- stage 2, which includes all performing positions/tranches that at the time of assessment simultaneously meet the following two conditions: (i) they have a PD greater than the threshold for the low credit risk exemption; (ii) they have experienced a significant increase in credit risk with respect to the level measured at the origination date; in the absence of a rating/PD at the reporting date, exposures are generally allocated to stage 2 (without prejudice to the additional considerations and practices addressed below);
- stage 3, which includes all exposures that, as at the evaluation date, are classified as non-performing under the default definition adopted. They are governed by specific internal rules in conformity with supervisory regulations.

The staging method was developed on the basis of the following drivers.

The method developed for the loan portfolio envisages:

- the use of the low credit risk (LCR) criterion, under which credit risk is deemed to have not increased significantly if the exposure shows a low level of credit risk at the reporting date, essentially defined as a PD threshold of 0.30% at the reporting date;
- the use of quantitative criteria based on rating/scoring systems, involving the analysis and comparison of the PD/rating at origination with the PD/rating at the reporting date. This identifies, on the basis of thresholds of significance defined in terms of the number of notches that a rating has changed, any significant increase in credit risk on the position.
- the use of qualitative staging criteria to identify the riskiest positions in the performing portfolio. These criteria have been defined independently of the use (or not) of the quantitative criteria referred to in the previous point and are based on the identification of objective evidence of impairment, such as the presence of forbearance measures or positions more than 30 days continuously past due;

The staging methodology developed for the securities portfolio is applicable to the entire portfolio of debt securities outstanding at the reporting date for the various Group entities. Not included in the calculation of impairment, and therefore not subject to the staging mechanism, are shares, equity investments, units of collective investment undertakings, securities classified as held-for-trading and debt securities that do not pass the benchmark test and the SPPI test.

The approach adopted for the securities portfolio provides for the use of the principle of the low credit risk exemption, which allocates to stage 1 exposures with a conditional 12-month PD below the investment grade threshold. Exposures with a conditional 12-month PD above that threshold are allocated to stage 2.

Group entities with a securities portfolio use the external ratings of an ECAI at the tranche level. For the purpose of assigning a rating to securities exposures at the reporting date, only ECAIs with which a valid information-use agreement is in place are used.

Starting from the allocation of exposures in the different stages, the calculation of expected losses (ECL) is carried out, at the level of each position, on the basis of the estimated risk parameters (EAD, PD, LGD) using internal management models, performed in compliance with the requirements of the applicable accounting standard.

In particular, for the purposes of determining the probability of default (PD), the approach adopted for both the loan portfolio and the securities portfolio envisages:

- the transformation of the "through-the-cycle" PD into (or calculation of) the "point-in-time" (PIT) PD on the time horizon for the most recent historical observations;
- the inclusion of forward-looking scenarios through the application of multipliers generated by internal "satellite" models to the PIT PD and the definition of a series of possible scenarios and the associated probability of occurrence that incorporate future macroeconomic conditions in the estimates;
- the transformation of the 12-month PD into a lifetime PD in order to estimate the PD term structure over the entire residual life of the loans.

Loss Given Default (LGD) is determined using an approach based, in general, on the observation of historical loss rates on non-performing positions and on the application of the danger rate matrices, corresponding to the probability that a default becomes a bad loan conditional on the occurrence of the default status event.

In order to make the obtain a forward-looking and lifetime LGD, the macroeconomic multipliers (determined using internally estimated satellite models) are applied for each reference period in the first three years, and estimated for the following years as an average of the multipliers for the first three years. For the securities portfolio, the unconditioned LGD measures are the same for both stage 1 and stage 2 exposures. In particular, an unconditioned LGD of 45% is used, subsequently subjected to forward-looking conditioning, consistent with the scenarios and the probabilities of occurrence used for conditioning the PD.

Exposure at Default (EAD) is calculated on the basis of the amortized cost schedules of the individual relationships for both loans and debt securities. For exposures relating to margins, EAD is determined by applying a specific Credit Conversion Factor (CCF) to the nominal value of the position.

For the purposes of calculating ECL under IFRS 9, the risk parameters are estimated from a forward-looking perspective through conditioning to macroeconomic scenarios. The approach adopted consists in the use of implicit multipliers to be applied to the parameters, in particular the PD, estimated on the basis of the scenarios and forecast values for the exogenous macroeconomic variables provided by our external provider. In order to reflect the different forward-looking riskiness of the positions assessed in the ECL estimates, these multipliers are differentiated by type of counterparty, sector of economic activity and geographical area. To determine the macroeconomic conditioning measures to be applied in the calculation, two types of scenarios are used, the first relating to an ordinary economic situation (or "baseline"), the other to an adverse situation ("worst plausible scenario "), which is associated, using judgment, with the corresponding probability of occurrence, also taking account of the greater alignment of the baseline scenario with typical market conditions.

For the conditioning of the LGD parameter to macroeconomic scenarios and the estimation of the corresponding forward-looking measures we use internally estimated "satellite" models.

Note that, starting from January 1, 2021, Iccrea Banca has effectively begun the operations of the financing business unit transferred by Iccrea BancaImpresa. For this portion of the portfolio, the criteria for staging and calculating the PD, LGD and EAD risk parameters for the customer segments already present in the original portfolio have been applied.

The IFRS 9 framework was updated to ensure regulatory compliance with new provisions such as the New Definition of Default (New DoD), adopted by the Group starting from January 1, 2021 and first applied for the purposes of calculating credit adjustments starting from the closing of the accounts at March 31, 2021.

Note that the New DoD was intended by EU authorities (ECB, EBA, EU Commission) to strengthen the comparability of risk metrics (internal parameters, RWA, NPE ratio) between different institutions, seeking to achieve greater uniformity and comparability in the logic underlying the classification of impaired loans, reduce compliance costs for transnational institutions and minimize the variability of RWAs among banks with similar risk profiles. Given the foregoing, the interventions to ensure compliance with the New DoD performed by the Group in the first quarter of 2021 included the updating and recalibration of the models for measuring credit risk (PD, LGD) so as to incorporate the impacts of the new rules for past due classification and the effect of the mandatory propagation of default status at the Group level for common customers. In particular, the probability of default has been adapted to the new regulatory framework in order to take account of the impact on the probability of occurrence of the default event connected with changes in the process of determining default itself. The LGD parameters were recalibrated to take account of the impacts of the New DoD both in terms of new default flows generated by the adoption of the new definition and the consequent new composition of the impaired portfolio.

MODIFICATIONS DUE TO COVID-19

As part of the comprehensive set of initiatives launched by the Group for the purposes of managing the COVID-19 emergency on a structural basis, the work connected with the review of the credit risk forecasting metrics was of particular importance, factoring the new analytical determinants associated with this new context into the ordinary measurement processes, and in particular within the IFRS 9 impairment framework for the purposes of estimating expected losses on performing loans (expected credit losses, ECL).[33]

The sharp discontinuity in market conditions generated by the effects of COVID-19 has required the implementation of a series of extraordinary methodological and implementation measures to incorporate the implications of the reference scenario into the impairment model, considering developments in the situation in particular. The introduction of measures to support the economy and customers, with particular reference to the initiatives undertaken by the Group under the provisions of the relevant decree laws, the measures agreed with industry associations and the private initiatives implemented by individual entities led to the maintenance of the methodological changes in the IFRS 9 impairment framework introduced last year in order to reflect its impact in the calculation of expected credit losses.

Determining the presence of a significant increase in credit risk (SICR)

The measures implemented in response to the pandemic, with specific regard to determining whether a significant increase in credit risk has occurred, concerned the inclusion of the loan repayment moratoriums for households and micro, small and medium-sized enterprises contained in Decree Law 18/2020 (the "Cure Italy Decree"), as ratified with Law 27/2020. The management of the impact of these support measures included the adaptation of automatic staging mechanisms in order to ensure that the stage allocation criteria were consistent with the methods and purposes of the support measures, while still using an appropriate degree of prudence in assessing such positions in the light of market developments and the expectations expressed since 2020 by the supervisory authorities in this regard.

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: (i) unsecured guarantees; (ii) 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

[33] Starting with the closure of the 2020 half-year financial statements, the Stage 3 impairment add-on was applied so that the reduction in recoveries in the new market conditions engendered by the COVID-19 crisis would be reflected within the analytical process envisaged by the credit assessment policy.

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: exposures continuously past due or overlimit by more than 90 days in an amount exceeding the materiality thresholds (a relative materiality threshold equal to 1% of the entire exposure and an absolute materiality threshold of €100 or €500 for retail or corporate counterparties respectively;
- 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 "watch list exposures") in order to assess of specific situations, whether performed using automated system or manually, are mapped to the above categories, ensuring that the mapping method is immediately understandable and transparent.

In identifying forborne exposures, the regulations require a transaction-by-transaction approach, regardless of their classification (impaired past due and/or overlimit exposures, unlikely to pay exposures or defaults): although the state of financial difficulty must be ascertained at level of the debtor, only the exposures referred to the latter that have actually been granted forbearance measures must be classified as forborne.

These classification rules are further supplemented by that established in IFRS 9, according to which credit exposures must be allocated to three stages (for more details, see the previous discussion). Among impaired exposures, allocation to stage "3" is underscored, which occurs when the customer's status changes to "non-performing".

In organizational terms, the Group has governance and operational structures to enable the efficient and sustainable management of impaired loans. Specifically, the individual Group companies will implement their policies for the management and recovery of anomalous positions and NPLs by drafting of internal rules customized to reflect the characteristics of the territory in which they operate, the scale of operations, their business model and related organizational structure, always in compliance with the provisions of Group policy.

For the purposes of identifying non-performing exposures, the Group:

- applies a unified and harmonized definition of NPLs in all Group companies, consistent with the applicable regulatory provisions;
- considers legal and financial connections between counterparties and adopts a group perspective in identifying the exposure of a debtor as impaired (default propagation).

The Parent Company defines the strategy for managing non-performing exposures, which is approved and monitored by its Board of Directors. Specifically, the Parent Company defines the objectives in terms of reducing expected NPE levels at Group level and establishes, with the support of the Group companies, the objectives for the individual companies and the related management strategies to ensure a common commitment and a consistent approach to achieving the objectives. The implementation of the strategy is supported by the Parent Company through the delivery of specialized support services, the provision of tools to facilitate the uniform management of impaired positions and a Group operational plan, which is also approved by the Parent Company's Board of Directors.

Furthermore, in order to enhance the commitment of the resources dedicated to the management of non-performing exposures in order to achieve the defined objectives, all Group companies have developed a system for measuring the performance of senior management and the organizational structures dedicated to management of non-performing exposures, which promotes, based on specific indicators, the commitment to managing such exposures.

In accordance with the principle of proportionality, the individual Group companies define their own performance evaluation and monitoring systems in line with Group policy. Specifically, it is considered necessary for Group companies to adopt performance indicators that take account of a set of quantitative and qualitative factors, including for example:

- developments in the stock of gross and net non-performing exposures, in line with the Group's Strategic Plan;
- methods for applying forbearance measures;
- the total amount recovered on the loan portfolio with a focus on collections, liquidations and asset sales;
- the aging of positions by recovery management phases;
- the regular performance of agreed restructuring plans;
- the application of writeoffs;
- the reduction of arrears and the improvement of portfolio quality.

3.2 WRITEOFFS

Writeoff means the derecognition from the 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 managed, measured and monitored in accordance with the principles discussed in previous sections. In particular, the expected credit losses recorded at initial recognition in the carrying amount of the instrument are reviewed periodically based on the processes described in the preceding sections.

The expected loss for these exposures is always calculated over their lifetime and the exposures are conventionally reported under stage 3, or stage 2 if, following an improvement in the credit quality of the counterparty since initial recognition, the assets are performing.

Such assets are never classified under stage 1 since the expected credit loss must be calculated on a lifetime basis.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES GRANTED FORBEARANCE MEASURES

The definition regards exposures subject to renegotiation and/or refinancing - forbearance measures – in respect of performing borrowers or classified as non-performing loans. In a broad sense, the category includes all new forbearance measures and modifications of the original contractual terms aimed at avoiding default by a customer in financial distress. It therefore includes both credit exposures subject to management restructuring (not only statutory restructuring measures) and normal renegotiation of counterparty payments.

A customer is in "objective" financial distress when one or more of the following states exists:

- the customer is classified as "non-performing";
- a payment instalment on at least one of any exposures to the customer is past due by more than 30 days in the three months prior to the opening of the forbearance procedure;
- notification by the customer of its financial distress.

Other circumstances that would represent a state of financial distress that the position manager must assess in order to classify any action as "forbearance" can include:

- an increase in the probability of default (PD) of the rating class over a time horizon defined by the opening of the forbearance procedure;
- the assignment of the counterparty to one of the worst rating classes;
- the assignment of the exposure to the watchlist category during the three months prior to the opening of the forbearance procedure.

In the absence of the above requirements, the position manager or the decision-making body may still classify the action as forbearance they find evidence that the borrower is in situation of financial distress.

As indicated in the ECB publication “Guidance to banks on non-performing loans”, the following list outlines general supervisory guidance for the categorization of viable forbearance:

- a solution comprising short-term forbearance measures. it should be considered economically sustainable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can afford the forbearance solution;
  - short-term measures are truly applied temporarily and the bank has satisfied itself and is able to attest, based on reasonable financial information, that the borrower demonstrates the ability to repay the original or agreed modified amount on a full principal and interest basis commencing from the end of the short-term temporary arrangement expiry date;
  - the solution does not result in multiple consecutive forbearance measures having been granted to the same exposure (even if these regard separate contracts if the loan was refinanced in a previous forbearance solution).
- a forbearance solution including long-term forbearance measures should only be considered viable where:
  - the bank can demonstrate (based on reasonable documented financial information) that the borrower can realistically afford the forbearance solution;
  - the resolution of outstanding arrears is fully addressed and a significant reduction in the borrower’s balance in the medium to long term is expected;
  - in cases where there have been previous forbearance solutions granted in respect of an exposure, including any previous long-term forbearance measures, the bank should ensure that additional internal controls are implemented to ensure this subsequent forbearance treatment meets the viability criteria. These controls should include, at a minimum, that such cases should receive explicit approval of the relevant senior decision-making body.

Any assessment of viability should be based on the financial characteristics of the debtor and the forbearance measure to be granted at that time.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING CREDIT EXPOSURES: STOCKS, WRITEDOWNS, CHANGES AND DISTRIBUTION BY SECTOR

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

	Bad loans	Unlikely to be repaid	Impaired past due exposures	Unimpaired past due positions	Other performing positions	Total
1. Financial assets measured at amortized cost	38,106	76,271	5,593	26,681	47,518,425	47,665,077
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	308,933	308,933
3. Financial assets designated as at fair value	-	-	-	-	334,981	334,981
4. Other financial assets mandatorily measured at fair value	-	-	-	-	61,871	61,871
5. Financial assets held for sale	-	-	-	-	601	601
Total 30/06/2021	**38,106**	**76,271**	**5,593**	**26,681**	**48,224,813**	**48,371,464**
Total 31/12/2020	**4,496**	**1,136**	**65**	**176**	**48,135,407**	**48,141,280**

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

	Impaired				Unimpaired			Total (net exposure)
	Gross exposure	Total writedowns	Net exposure	Total partial writeoffs *	Gross exposure	Total writedowns	Net exposure	
1. Financial assets measured at amortized cost	365,811	245,840	119,971	28,507	47,608,911	63,805	47,545,107	47,665,077
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	309,402	469	308,933	308,933
3. Financial assets designated as at fair value	-	-	-	-	X	X	334,981	334,981
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	61,871	61,871
5. Financial assets held for sale	-	-	-	-	604	2	601	601
Total 30/06/2021	**365,811**	**245,840**	**119,971**	**28,507**	**47,918,917**	**64,276**	**48,251,494**	**48,371,464**
Total 31/12/2020	**30,140**	**24,444**	**5,696**	**373**	**47,754,357**	**16,373**	**48,135,584**	**48,141,280**

	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	472,138
2. Hedging derivatives	-	-	3,106
Total 30/06/2021	**-**	**-**	**475,244**
Total 31/12/2020	**-**	**-**	**581,132**

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 exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to be repaid	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	30,840,296	6,235	30,834,061	-
- of which: forborne exposures	X	-	-	-	-
Total A	**-**	**30,840,296**	**6,235**	**30,834,061**	**-**
B. Off-balance-sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	7,365,000	157	7,364,843	-
Total B	**-**	**7,365,000**	**157**	**7,364,843**	**-**
Total A+B	**-**	**38,205,296**	**6,392**	**38,198,904**	**-**

* 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	Impaired			
A. On-balance-sheet exposures					
a) Bad loans	154,664	X	116,558	38,106	28,507
- of which: forborne exposures	40,758	X	26,691	14,067	-
b) Unlikely to be repaid	204,019	X	127,748	76,271	-
- of which: forborne exposures	143,542	X	93,031	50,512	-
c) Impaired past due exposures	7,127	X	1,534	5,593	-
- of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	29,512	2,831	26,681	-
- of which: forborne exposures	X	6,949	519	6,430	-
e) Other performing assets	X	17,480,208	55,210	17,424,999	-
- of which: forborne exposures	X	70,667	3,617	67,050	-
Total A	**365,811**	**17,509,721**	**303,881**	**17,571,650**	**28,507**
B. Off-balance-sheet exposures					
a) Impaired	15,400	X	5,702	9,698	-
b) Unimpaired	X	3,077,597	12,246	3,065,351	-
Total B	**15,400**	**3,077,597**	**17,948**	**3,075,049**	**-**
Total A+B	**381,211**	**20,587,317**	**321,829**	**20,646,699**	**28,507**

* Values to be reported for information purposes

SECTION 2 MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

QUALITATIVE DISCLOSURES

A. GENERAL ASPECTS

The term trading book refers to the portfolio consisting of positions intentionally held for subsequent short-term disposal and/or taken on to benefit from short-term differences between purchase and sales prices, or other changes in prices or interest rates. In general, the supervisory trading book is represented by the positions held under an "other" business model, namely "held for sale", i.e. the portfolio including debt and equity securities, units in collective investment undertakings and derivatives held for trading purposes.

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of market risk management within the entire Iccrea Mutual Banking Group in compliance with the principles of sound and prudent management.

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.

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.

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).

The measurement activities performed by the Risk Management unit involve:

- verification and validation of the market and price parameters used as inputs in the front office and market risk management applications;
- verification of the quality of the identifying information of the financial instruments;
- validation of the fair value of the financial instruments held by the Group;
- oversight and validation of the production of all risk metrics.

For the purpose of calculating capital requirements for market risks, the ICBG uses the standardized approach, in compliance with the relevant supervisory measures.

At the operational level, internal models are used for measurement purposes. The measurement metrics used for operational purposes to measure market risk can be classified as follows:

- probabilistic metrics:
  - Value at Risk (VaR) approach, which represents the main metric owing to its uniformity, consistency and transparency in relation to finance operations;
- deterministic metrics:
  - level metrics (such as, for example, notional amounts and mark to market values), which represent an immediately applicable solution;
  - analysis of sensitivity and Greeks, which are an essential complement to VaR indicators owing to their capacity to capture sensitivity and the direction of financial positions in response to changes in the identified risk factors;
  - stress testing and scenario analysis, which complete the analysis of the overall risk profile, capturing changes due to specified developments in the underlying risk factors (worst case scenarios);
  - loss, which represents the negative financial performance in a specified period of time of both closed and open positions.

Probabilistic metrics

Value at Risk (VaR)

An approach based on historical simulations is used to calculate VaR, (with a sample period of 3 years, confidence level of 99% and holding period of 1 day). The model currently covers the following risk factors:

- interest rates;
- inflation rates;
- exchange rates;
- stocks and stock indices;
- interest rate volatility;
- stock price volatility.

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

Deterministic metrics

Sensitivity and Greeks of options

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

- PV01: the change in market value in response to a change of 1 basis point in the zero-coupon yield curve;
- Vega01: a change of 1 percentage point in implied volatilities on interest rates;
- IL01 (sensitivity to inflation): the change in market value in response to a change of 1 basis point in the forward inflation rate curve;
- Vega sensitivity to inflation: a change of 1 percentage point in implied volatilities on forward inflation rates;
- CR01: a change of 1 basis point in credit spreads;
- Delta: the ratio between the expected change in the price of options and a small change in the prices of the underlying financial assets;
- Delta1%: the change in market value in response to a change of 1% in equity prices;
- Delta Cash Equivalent: the product of the value of the underlying financial asset and the delta;

- Vega1%: the change in market value in response to a change of 1% in the implied volatility of equity prices/indices;
- Correlation sensitivity: the change in the market value in response to a 10% change in implied correlations.

Level metrics

The nominal position (or equivalent) is a risk indicator based on the assumption that there is a direct relationship between the size of a financial position and the risk profile.

The nominal position (or equivalent) is determined through the identification of:

- the notional value;
- the market value;
- the conversion of the position in one or more instruments into a benchmark position (the equivalent position);
- the FX open position.

The approach is characterized by extensive use of ceilings in terms of notional/mark-to-market amounts as they represent the value of the assets recognized in the financial statements. These metrics are used to monitor exposures to issuer/sector/country risk for the purposes of analyzing the concentration of exposures

Stress testing and scenarios

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

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

Loss

Loss is a risk metric representing the negative financial performance achieved on closed and open positions over a specified period of time.

Loss is determined by identifying, with the specified time interval:

- the component of realized profits and losses;
- the component of latent (unrealized) profits and losses calculated using the mark-to-market/mark-to-model value of open positions.

Loss is equal to the algebraic sum of the two components indicated above, if negative.

In determining loss, foreign currency positions still open are measured at the ECB end-of-day exchange rate.

The metric makes it possible to measure losses connected with the general risk profile of outstanding positions and the management of the portfolio, identifying any deterioration in the profitability of financial operations.

It is helpful in monitoring the performance of the portfolio, given the risk profile assumed, when:

- more sophisticated measurement systems are not present;
- it is impossible to capture all risk factors;
- timely control and management of limits is required.

RISK PREVENTION AND ATTENUATION

Risk Management conducts backtesting of operational measurement models on an ongoing basis. The effectiveness of the calculation model is monitored daily through backtesting, which by comparing the forecast VaR with the corresponding profit or loss shines light on the capacity of the model to accurately capture the variability of the revaluation of the trading positions statistically. This approach makes it possible to:

- strengthen the effectiveness of the dialogue between Risk Management and the front office;
- enhance awareness of the actual performance dynamics of the portfolios;

- break down and interpret the sources and causes of daily changes in P&L;
- identify and monitor any risk factors that are not fully captured by the calculation models adopted.

In addition to the backtesting noted earlier, the effective management of market risks is ensured using a comprehensive system of limits, which is a key tool for the management, control and attenuation of risks. The development of this system, which is a key element of the Risk Management Framework, took account of the nature, objectives and operational complexity of the Group.

The overall system of market risk indicators comprises indicators included in and governed by the RAS and more strictly operational indicators set out in the risk governance policies.

The controls established to manage market risks break down into:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the market risk profile and ensure the correct activation of escalation mechanisms;
- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

MONITORING AND REPORTING

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to market risks on a daily basis, in order to prepare reporting to be sent to the competent units and to monitor/verify the implementation of escalation mechanisms by the trading desks involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators and represents a key control element that regards both the monitoring of specific indicators and verifying and analyzing any breaches of risk appetite and/or risk limit thresholds.

These activities therefore perform an "ex post" control function in relation to the continuous monitoring of all indicators that signal breaches of assigned risk levels, but they also serve an "ex ante" function in signaling the approach of risk profiles towards the threshold/limit/risk propensity levels. Therefore, the effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk targets/tolerances established in determining the RAS/risk limits;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The market risk control and monitoring activities are governed within a set of internal regulations defining the roles and responsibilities of the various actors involved in the process.

At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In this area, Risk Management is responsible for preparing periodic reporting on the various risk factors, providing appropriate disclosure to the operating lines, senior management and the Board of Directors.

RISK MANAGEMENT AND MITIGATION

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

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

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

QUANTITATIVE DISCLOSURES

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

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

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

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

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

With regard to market risks on the trading book, a 1-day VaR limit of €2.2 million has been established, calculated with a confidence level of 99%. The Market Risk Policy also specifies VaR limits for the different portfolios, measured using the same method. In the first half of 2021, the indicator never breached the limits at either the full book or individual portfolio level.

The average VaR of the trading book was equal to €0.43 million, with a minimum of €0.14 million and a maximum of €0.61 million (on February 15, 2021).

At June 30, 2021, the VaR was equal to €0.57 million.

	Sensitivity Value (in €)	Nota
Interest Rates	-338	Sensitivity calculated in relation to 1 bp change
Inflation Rates	1,847	
Credit spread	43,846	
Equity	30,316	Sensitivity calculated in relation to 1% change in share/equity index

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

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

GOVERNANCE AND ORGANIZATIONAL MODEL

The Parent Company is responsible for the management, coordination and control of interest rate risk management for the banking book within the entire Iccrea Cooperative Banking Group in compliance with the principles of sound and prudent management.

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.

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 PROCESSES

Identification of risks

The interest rate risk on the banking book is the risk originated by differences in the maturities and in the timing of the repricing of interest rates on the assets and liabilities in the banking book. In the presence of these differences, fluctuations in interest rates giver rise to both a short-term change in expected profit, through the impact on net interest income, and a long-term impact on the economic value of shareholders' equity, through the change in the market value of assets and liabilities.

Based on the composition of the current banking book and expected developments envisaged in strategic and operational planning, the Group identifies sources of interest rate risk to which it is exposed, classifying them in the following risk sub-categories: repricing risk, yield curve risk, basis risk, option risk and credit spread risk on banking book (CSRBB).

Risk measurement

The measurement of interest rate risk on the banking book is based on the current earnings approach and the economic value approach and is carried out for the purpose of:

- continuous monitoring of the risk profile by controlling the overall system of indicators that characterize the IRRBB Framework and the various "additional metrics" that have been defined;
- performing stress testing, which provides for the estimation of the impact of severe but plausible adverse market scenarios on the banking book.

The risk exposure is measured using a static or dynamic approach depending on the assessment approach adopted:

- current earnings approach: this seeks to assess the potential effects of adverse interest rate variations on an income variable, i.e. net interest income. In this perspective, the analysis is conducted using a dynamic "going-concern" approach, with a "constant balance sheet" view, assuming that positions are rolled over at maturity so as to leave the size and composition of the balance sheet unchanged, or a "dynamic balance sheet" view, developing projections for new business that are consistent with the hypotheses defined in strategic planning.
- economic value approach: this seeks to assess the impact of possible adverse changes in interest rates on the economic value of the banking book (economic value of equity), construed as the present value of the expected cash flows of assets, liabilities and off-balance sheet positions within the scope of analysis. Under this perspective, the analysis is conducted using a static "gone concern" approach, in which we assume the run-off of positions at maturity, without any replacement or renewal, or using a dynamic approach, developing projections for new operations that are consistent with the assumptions defined during strategic planning.

Specific models are adopted in both cases that ensure adequate quantification of the risk associated with positions that exhibit repricing behavior that differs from the contractual profile.

The metrics used in the current earnings approach are:

- Repricing gap: this measures the sensitivity of net interest income to changes in the reference rate by aggregating assets and liabilities in time buckets by repricing date. Assets and liabilities are aggregated in a number of predefined time buckets based on their next contractual repricing date or behavioral hypotheses. The weighting of the exposure for each time bucket for the time between the repricing date and the selected time horizon and the subsequent application of the assessment scenarios defined by the Group makes it possible to capture the impact of a change in rates on net interest income;
- NII sensitivity: the potential impact on net interest margin of hypothetical changes in risk-free rates is calculated using a “full revaluation” method that compares, over a selected time horizon, expected prospective net interest income In the event of changes in interest rates with expected net interest income in a “base” scenario of no variations. This approach is also used to quantify the impact on net interest income of possible variations in credit spreads (CSRBBs).

The metrics adopted in the economic value approach are:

- Duration gap: the change in the expected value of the banking book due an interest rates shock. It is calculated by weighting the net exposure of each time bucket, determined by placing positions in the banking book in different time buckets on the basis of their repricing date, by the associated modified duration;
- EVE sensitivity: the change in the expected value of the banking book is calculated using a “full revaluation” approach that involves the discounting of the cash flows of items in the book in a base scenario with no interest rate variations and one with interest rate variations. The overall metric can be broken down by time bucket in order to identify the distribution of risk over time (“bucket sensitivity”).

The measurement scenarios applied to interest rates are intended to monitor the risk categories to which the Group may be exposed. Each can be associated with internally developed or regulatory scenarios.

- repricing risk: in order to monitor this risk category, parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged for regulatory purposes, in the standard outlier test, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- yield curve risk: in order to monitor this risk category, non-parallel shocks to the risk-free yield curves are used in order to assess their impact on economic value and on net interest income. In addition to the scenarios envisaged by the reference guidelines, internally defined scenarios are used based on prudential assessments and historical analyses of observed changes in rates;
- basis risk: the analysis provides for the segmentation of the banking book based on the market parameters to which the items involved are indexed and the analysis of the time series of basis spreads with respect to the pivot rate (3-month Euribor) for the purpose of determining the size of the shocks to be applied to each;
- option risk: the analysis includes a preliminary identification of the automatic/behavioral option components in the assets and liabilities of the Group banking book and the subsequent:
  - historical analysis of the observed changes in volatility, to determine the magnitude of the shocks to be applied for the purpose of quantifying the automatic option risk;
  - verification of the impact of interest rate shocks on the behavioral model parameters, for the purpose of quantifying the behavioral option risk.

Risk prevention and attenuation

Interest rate risk is managed using a comprehensive system of limits, which is a key tool in the management, control and attenuation of risks within the IRRBB Framework, taking account of the nature, objectives and complexity of Group operations.

The system provides for setting risk limits for exposures in terms of the sensitivity of economic value and net interest income at both the consolidated and individual levels, as well as at the level of the individual business lines responsible for managing interest rate risk on the banking book.

In addition to the above system of limits, a comprehensive system of arrangements and controls contributes to defining the overall control model set out and formalized in the associated policy.

The controls established to manage interest rate risk on the banking book break down as follows:

- Level I controls, which are intended to ensure the correct registration and maintenance of transactions over time;
- Level II controls, which are intended to measure, monitor and report the interest rate risk profile and activate escalation mechanisms;

- Level III controls (Internal Audit), which are intended to verify compliance with rules and procedures as well as internal and external regulations.

Monitoring and reporting

The second-level controls, carried out by Risk Management, are aimed at monitoring the Bank's exposure to interest rate risk in order to prepare reporting to be sent to the competent units and to trigger escalation mechanisms with the collaboration of the operating units involved if the specified limits are breached. Control activities are based on the assessment and measurement of the risk profile compared with the risk indicators provided for by the risk governance framework. The effectiveness of monitoring compliance with limits is an instrumental part of:

- the timely identification of risk profile developments that might compromise achievement of the risk limits established;
- the prompt activation of recovery plans in response to specified conditions on the basis of the "magnitude" of the over-limit position.

The interest rate risk control and monitoring activities are performed within the framework of a set of internal regulations. At the operational level, communication between operational units and Risk Management occurs on a daily basis through extensive discussion of risk developments, increasing awareness of the risks assumed (in line with defined profit targets) and thereby facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The contents, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of the developments under way.

More specifically, the Risk Management function performs monitoring and reporting activities that are codified and formalized within the Risk Appetite Framework and the risk policies, preparing periodic reports and providing appropriate disclosure to the operating units, top management and the Board of Directors.

Stress test framework

In order to assess the potential impact of market tensions on the profitability and economic value of the banking book, stress test simulations are also conducted in addition to specific measurements of the exposure to risk.

The stress tests are intended to measure the extent to which the exposure to interest rate risk on the banking book could worsen in especially adverse market conditions.

The scenarios used in measuring the exposure to the different sources of risk and in analyzing stress tests are based on both regulatory shocks and shocks defined internally by the Group.

In accordance with regulatory provisions, the Group develops scenarios characterized by larger movements in yield curves than the shocks applied for the continuous monitoring of the IRRBB in order to test the vulnerabilities of the banking book in the presence of stress conditions.

In line with the applicable regulatory guidelines, the Group has adopted various types of mutually complementary analyses:

- sensitivity analysis: analysis of the exposure to the IRRBB and the CSRBB with respect to the marginal impact of different types of shocks, considered separately or jointly, relating to one or more risk factors;
- reverse stress testing: analysis consisting in identifying one or more stress scenarios whose impact leads to a pre-established result identified ex-ante. The reverse stress testing makes it possible to investigate, using a recursive analysis process, the size and probability of occurrence of the events that lead to this result;
- scenario analysis: analysis consisting in the assessment of the Group's ability to cope with a potential increase in its exposure to IRRBB and CSRBB based on a combination of shocks associated with one or more risk factors in accordance with specific evolutionary stress dynamics.

Depending on the purpose of the analysis, the time horizon of the stress exercise, the speed of propagation of shocks and the approach to be adopted for the projection of operations (static/dynamic) are defined.

The identification of risk categories is a starting point and a linkage among the main strategic processes to manage risk management (Risk Appetite Framework, Internal Capital Equity Assessment Process, Contingency & Recovery Plan) and is aimed at limiting the set of risk factors/parameters for which stress scenarios are developed.

For each of the risk categories identified it is possible to define the associated risk factor(s), understood as an exogenous variable whose shock can have a negative impact on the economic value of the banking book and/or on the associated net interest income, in terms of smaller-

than-expected loss or profit. In this perspective, the identification of risk factors is a preliminary phase in the definition of the shocks associated with stress scenarios.

All the stress scenarios adopted are generally calibrated using the historical simulation approach, based on prudential percentiles of the empirical distributions associated with the various risk parameters, using expert-based adjustments where appropriate in order to integrate forward-looking elements that are not present in the available historical data. To these scenarios, we add "purely" historical scenarios (i.e. without calculating a percentile of the historical empirical distribution), scenarios defined on a judgmental basis and scenarios provided by external sources (e.g. EBA Stress Test scenario).

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

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, 2021 is reported below.

€/millions	Scenario	
	-100 bp	+100 bp
Impact on economic value	- 1	- 26
Impact on net interest income	+ 6	+ 32

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) and overnight index swaps (OIS). 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. There was one such position at June 30, 2021.

We also have micro CFHs in place as at June 30, 2021:

- inflation-linked BTPs;

- CCTs

The derivatives used are interest rate swaps (IRS) not listed on regulated markets, transacted with third party counterparties on OTC markets.

C. HEDGING OF INVESTMENTS IN FOREIGN OPERATIONS

In the period under review, there were no hedges of exchange rate risk on foreign currency transactions.

D. HEDGING INSTRUMENTS

Designated hedging transactions, with formal documentation identifying the relationship between the hedged instrument and the hedging instrument, are considered effective if at inception and for the entire duration of the hedging relationship changes in the fair value or the cash flows of the hedged instrument are almost completely offset by changes in the fair value or cash flows of the hedging derivative. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is quantified by comparing the aforementioned changes, taking account of the intent pursued by the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging instrument almost entirely, i.e. within the specified limits, offset the changes in the hedged instrument for the risk being hedged.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests aimed at demonstrating that changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk will be such as to offset changes in the fair value or cash flows of the hedged item. They are performed adopting both qualitative (Critical Term Match) and quantitative methods ("cumulative scenario method" or "linear regression method with curve simulation");
- retrospective tests aimed at measuring the actual effectiveness of the hedging relationship between the date of designation and the test date, determining the deviation of hedging relationships from the result that would be achieved with a perfect hedge. These tests are performed using quantitative methods, i.e. the dollar offset method and the volatility risk reduction method.

The main causes of ineffectiveness are attributable to the following:

- a misalignment between the notional of the derivative and the nominal of the hedged instrument at the time of the initial designation or generated subsequently, as in the case of the repurchase of bonds;
- the approach of the expiry of the transaction.

The ineffectiveness of the hedge is recognized promptly for the purposes of:

- determining the impact on profit or loss;
- assessing the possibility of continuing to apply hedge accounting rules.

If the assessments do not confirm the effectiveness of the hedge, the relationship considered terminated as of the last date from which the relationship was shown to be effective. This date coincides with the beginning of the period in which the effectiveness test was failed. However, if the event or the circumstances that led to the hedging relationship no longer meeting the criteria for effectiveness are identified and it is shown that the hedge was effective before the event or change in the circumstances occurred, hedge accounting is discontinued from the date of the event or change in those circumstances. The hedging derivative, if not extinguished, may be designated as a hedging instrument in another relationship that meets the relevant or be reclassified as a trading instrument.

The Bank does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. HEDGED ITEMS

Hedged items designated as being in a hedge accounting relationship using micro and macro hedges are mainly government securities, corporate securities, bond issues and a loan to a company within the direct scope of consolidation.

These hedges are both total and partial and the hedged risk is mainly interest rate risk.

Debt securities held

These are hedged using micro fair value hedges and macro fair value hedges involving IRSs, ASWs and OISs as hedging instruments. Where present, interest rate and inflation risk are hedged for the duration of the obligation. The effectiveness tests are carried out using the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Debt securities issued

Iccrea Banca currently has active micro fair value hedging relationships for fixed-rate or structured funding and micro cash flow hedges for funding denominated in foreign currency, using IRSs and CCSs, respectively, as hedging instruments. Interest rate risk, and exchange rate risk for foreign currency funding, is hedged for the duration of the obligation. The effectiveness tests are carried out using hypothetical derivative approach within the dollar offset method for retrospective assessment and the cumulative scenario method for prospective assessment.

Fixed-rate loans

Iccrea Banca has designated a micro fair value hedge of a fixed-rate loan to a company within the direct scope of consolidation and a deposit with banks, 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 Mutual 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.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be divided into the following macro-categories:

- endogenous: represented by adverse events specific to the Bank (e.g. a deterioration in the Bank's credit standing and loss of confidence by creditors);
- exogenous: when the origin of the risk is attributable to adverse events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) that give rise to liquidity tensions in the markets;
- combinations of the previous factors.

Measurement of risks

Measuring liquidity risk involves the activities performed to observe and quantify on a comprehensive, accurate and timely basis the exposure to such risk over the selected observation horizon.

Measuring the exposure to liquidity risk is based on an assessment of expected cash inflows and outflows – and the consequent deficits or surpluses – in the various residual maturity bands that make up the maturity ladder in order to:

- monitor the risk profile in "business as usual" conditions, overseeing the overall system of indicators that characterize the Liquidity Risk Framework;
- execute stress testing, which involves the determination of the liquidity position in severe but plausible adverse scenarios, assessing the impact at the consolidated and individual levels.

The risk position is measured with the use of models, specific indicators and additional metrics developed either internally or established in regulations.

The analysis of the maturity profiles depends substantially on assumptions about the future cash flows associated with the various assets and liabilities, both on-balance-sheet and off-balance-sheet, which take account of the economic maturities of the balance sheet elements rather than contractual dates, without neglecting the application of reasonable prudence criteria.

The risk position is measured using static and dynamic approaches, in line with the provisions of the company budget/strategic plan concerning the assets, liabilities and equity items in the financial statements, as well as off-balance-sheet transactions.

On the basis of the desired time horizon, 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

Control activities are carried out by the Risk Management function and 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.

Liquidity risk control and monitoring activities are carried out within the internal self-regulatory framework. At an operational level, communication between the management functions and Risk Management takes place daily through in-depth discussions on risk developments that increase awareness of the profiles of the risks assumed (in accordance with the specified profitability objectives), thus facilitating the definition of appropriate management decisions.

An additional level of communication is embodied in the reporting system, which represents a decision support tool to provide the various organizational units involved with adequate and timely information on both the strategic and operational levels. The content, level of detail and frequency of the reporting are determined in accordance with the goals and roles assigned to the different recipients so as to ensure easy consultation, immediate perception of the situation and a comprehensive understanding of developments.

In particular, Risk Management performs codified and formalized monitoring and reporting activities within the Risk Appetite Framework and the Risk Policies, with the preparation of periodic reporting to provide appropriate disclosure to the management functions, senior management and the Board of Directors.

Stress test framework

The 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.

IMPACT OF THE COVID-19 PANDEMIC

The risk measurement and control system has not undergone significant changes as a result of the COVID-19 pandemic as it already meets the requirements for the sound and prudent management of risks, including economic-financial risks, generated in the wake of the onset of the health emergency.

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 Mutual Banking Group concerning operational and IT risks. This unit operates as a specialist hub for this area;
  - responsibility for supporting the Risk Management functions of the direct scope subsidiaries and, through the Mutual Bank Risk Management Coordination unit, the risk management functions of the affiliated banks;
- at the affiliated banks and direct scope subsidiaries, the Risk Management units report to their boards of directors and are responsible, among other duties, for monitoring and managing developments in the exposure to operational and IT risks.

The methodological aspects underlying the management framework and the related methods of application to the Group companies were formalized and approved at the end of 2019 as part of specific Group policies (Operational Risk Management Framework, IT Risk Management Framework, Loss Data Collection, Operational Risk Self Assessment and IT Risk Self Assessment).

This framework has been developed in accordance with the typical phases of the operational risk management process, namely:

- identification of risks (knowledge): a set of activities directed at identifying operational and IT risks by assessing the factors that drive their dynamics, taking account of the dual perspective of events that have already occurred (i.e. operational loss data) and potential risk (assessed through the collection of business expert opinion).
- evaluation/measurement of identified risks (awareness): a set of activities for assessing/measuring Group operational and IT risks.
- risk prevention and attenuation (strategy): a set of activities for the ex-ante identification of the possible ways of preventing and mitigating unfavorable developments in the dynamics of operational and IT risks. Definition of actions to prevent the occurrence of unfavorable events and mitigate the effects of the manifestation of events connected with operational and IT risks, and the implementation of measures to ensure that possible risk scenarios underlying operations evolved within the tolerated risk appetite levels defined for specific operating or business segments.
- monitoring and reporting (tracking and control): a set of activities to monitor the Group's risk profile and deliver comprehensive reporting to provide timely, accurate and appropriate support to the decision-making process underlying "Risk Prevention and Mitigation" and "Risk Management and Mitigation".
- risk management and mitigation (reaction and proactivity): a set of activities and actions to support the management of operational and IT risks, implement actions to prevent the occurrence of adverse events and to attenuate the effects of events related to operational 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 loss data collection process has currently been adopted by Iccrea Banca and all the Group companies that contribute, with a specified frequency, to the collection of historical events and losses through the Group application solution, which is available to both the companies within the direct scope of the Group and the affiliated banks.

As regards the assessment processes for operational risks (OR-SA) and IT risk (IR-SA), the identification and assessment of prospective risks have been initiated and conducted for certain companies within the direct scope, including Iccrea Banca and other mutual banks. In 2020, the development of the related application system also continued.

With specific reference to IT risk, the application component supporting IR-SA activities has been rolled out and was used to assess the IT risk profile at December 31, 2020 of Iccrea Banca and BCC Sistemi Informatici, the latter of which is the prime supplier of ICT services to the Bank.

In addition, 2020 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 Parent Company's Operational Risk Management function also supported the collection of operational loss events at the Group level for management reporting use and for QIS and COREP regulatory reporting purposes.

With regard to the monitoring activities of the Incident Management Process, significant incidents were monitored continuously, from the time of their occurrence until closure of the incident, with the performance of assessment activities in the event of incidents with specific characteristics or for which particular risk factors were identified. Specific periodic reporting is prepared for these activities.

QUANTITATIVE DISCLOSURES

As provided for in Circular no. 285/2013 of the Bank of Italy as updated, for reporting purposes the Bank calculates operational risks using the Basic Indicator Approach. Under the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient to an indicator of the volume of business, which in the case of the Bank is "gross income". In particular, the Bank's capital requirement, equal to 15% of the average of the last three observations of gross income at the end of the previous year (December 31, 2020), amounted to €52,494 thousand.

RELEVANT INDICATOR	PERIOD	VALUE
- at December 31, 2020	T	328,873
- at December 31, 2019	T-1	382,036
- at December 31, 2018	T-2	338,964
Relevant indicator average		**349,958**
Regulatory coefficient		**15%**
Capital requirement		**52,494**

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

	30/06/2021	31/12/2020
1. Share capital	1,401,045	1,401,045
2. Share premium reserve	6,081	6,081
3. Reserves	184,810	252,486
- earnings	184,810	252,486
a) legal	50,785	50,785
b) established in bylaws	205	205
c) treasury shares	-	-
d) other	133,820	201,496
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	47,806	38,050
- Equity securities designated as at fair value through other comprehensive income	793	(3,136)
- Hedges of equity securities designated as at fair value through other comprehensive income	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	380	1,524
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging of investments in foreign operations	-	-
- Cash flow hedges	(2,718)	(9,692)
- 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	(2,711)	(2,708)
- 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	81,166	(66,795)
Total	**1,720,909**	**1,630,867**

B.2 - VALUATION RESERVES FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: COMPOSITION

	Total 30/06/2021		Total 31/12/2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	671	(291)	1,705	(181)
2. Equity securities	2,819	(2,026)	1,504	(4,640)
3. Loans	-	-	-	-
Total	**3,490**	**(2,317)**	**3,210**	**(4,821)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

See the disclosures on own funds and capital adequacy in the Third Pillar disclosures.

PART G - BUSINESS COMBINATIONS

No business combinations were carried out in the first half of the year that led to the acquisition of control pursuant to IFRS 3

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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 2021 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 30/06/2021				
	Short term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
Key management personnel	3,723	141	-	-	-

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

For the purposes of the preparation of these disclosures, pursuant to IAS 24 a related party is a person or entity who is related to the reporting entity:

a) a person or close family member of that person is related to an reporting entity if that person:

   i. has control or joint control of the reporting entity;

   ii. has a significant influence over the reporting entity;

   iii. or is one of the key management personnel of the reporting entity or one of its parent companies.

b) an entity is related to a reporting entity if any of the following conditions apply:

   i. the entity and the reporting entity are part of the same group (which means that each parent, subsidiary and group company is related to the others);

   ii. an entity is an associated or joint venture of the other entity (or an associate or joint venture belonging to the group to which the other entity belongs);

   iii. both entities are joint ventures of the same third party;

   iv. an entity is a joint venture of a third-party entity and the other entity is an associate of the third-party entity;

   v. the entity is represented by a post-employment benefit plan for the employees of the reporting entity or an entity related to it. If the reporting entity is itself a plan of this type, the employers who sponsor it are also related to the reporting entity;

   vi. the entity is controlled or jointly controlled by a person identified in point (a);

   vii. a person identified in point (a)(i) has a significant influence over the entity or is one of the key management personnel of the entity (or its parent);

   viii. the entity, or any member of a group to which it belongs, provides management services with strategic responsibilities to the reporting entity or to the parent company of the reporting entity.

In December 2011, the Bank of Italy issued the rules governing related party transactions contained in Circular 263/2006, with which it sought to strengthen the arrangements for managing the risk that the proximity of certain persons to a bank's decision-makers could compromise the impartiality and objectivity of decisions concerning the granting of loans and other transactions with them, with possible distortions of the resource allocation process, the exposure of the bank to risks that are not adequately measured or monitored, and potential losses for depositors and shareholders.

Iccrea Banca has adopted a document governing the principles and rules applicable to related party transactions in compliance with regulations of the supervisory authorities.

In compliance with supervisory regulations, all transactions carried out by the Bank with its related parties were carried out in compliance with the principles of substantive and procedural fairness, on terms analogous to those applied to transactions with independent counterparties. No unusual or atypical transactions were carried out with related parties, nor were any such transactions carried out with other counterparties.

The following table summarizes the financial effects of transactions with the related parties of the Bank.

	30/06/2021			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Financial assets	26,462,457	97,797	-	-
Total other assets	101,287	-	-	-
Financial liabilities	17,375,573	35,992	-	-
Total other liabilities	70,429	-	-	-
Commitments and financial guarantees issued	7,476,867	-	-	-
Commitments and financial guarantees received	25,556	-	-	-
Provisions for doubtful loans	-	-	-	-

	30/06/2021			
	Subsidiaries	Associated companies	Key management personnel	Other related parties
Interest income	31,430	45	-	-
Interest expense	(107,046)	-	-	-
Dividends	23,371	-	-	-
Fee and commission income	34,777	120	-	-
Fee and commission expense	(3,322)	-	-	-
Other operating expenses/income	(17,619)	-	-	-
Net gain (loss) on trading activities	(40,455)	-	-	-
Net gain (loss) on hedging activities	-	-	-	-
Writedowns/writebacks of impaired financial assets	-	-	-	-

PART I - SHARE-BASED PAYMENTS

Iccrea Banca SpA does not have any share-based payment agreements.

PART L - OPERATING SEGMENTS

Exercising the option granted by IFRS 8, Iccrea Banca SpA, the Parent Company of the Iccrea Cooperative Banking Group, presents segment information in Part L of the notes to the consolidated interim financial statements.

PART M - LEASE DISCLOSURES

SECTION 1 – LESSEE

QUALITATIVE DISCLOSURES

Iccrea Banca's leases essentially regard property and car leases.

At June 30, 2021, the Bank held 371 leases, of which 41 relating to property and 330 relating to cars for total right-of-use assets of €3,209 thousand.

The properties are mostly used for banking and general management activities. Based on historical experience, the Bank includes the first lease extension in computing the lease term, in addition to the non-cancellable period, if renewal depends exclusively on the lessee. Therefore, both at the date of FTA and upon initial recognition of a contract under IFRS 16, the first reasonably certain lease extension has been considered, unless there is effective evidence of relevant facts and circumstances that would counsel a different assessment. Therefore, in the case of a lease for property with a term of 6 years and a tacit renewal option at the end of the first six-year period, the term considered in determining the useful life of the right of use is 12 years, unless there are facts or circumstances that suggest a different assessment.

Car leases regard contracts for cars assigned to employees for business use. These contracts usually come in the form of "long-term rentals", and are therefore have a multi-year term and usually do not include a final purchase option.

No sale and leaseback transactions were carried out during the period.

As already indicated in the accounting policies, the Group has elected to exercise the exemptions permitted by IFRS 16 for short-term leases (term of less than or equal to 12 months) and low-value leases (where the value of the asset is less than or equal to €5,000).

QUANTITATIVE DISCLOSURES

Part B of the notes to the financial statements reports right-of-use assets acquired with leases in the amount of €3,209 thousand (Table 8.1 – Operating property, plant and equipment: composition of assets carried at cost); with leases liabilities of €3,209 thousand reported in Table 1.2 - Financial liabilities measured at amortized cost: composition of amounts due to customers.

Part C Income statement reports interest in respect of lease liabilities of about €32 thousand (Table 1.3 Interest and similar expense, Financial liabilities measured at amortized cost: amounts due to customers)

The following table breaks down depreciation charges (reported in Table 12.1 on the income statement) for right-of-use assets into the various categories.

The right of use relating to leased assets (rental of properties and cars) has been recognized under the sub-item "Assets acquired under finance leases" as required by IFRS 16.

	Property	Automobiles	Total 30/06/2021	Total 31/12/2020
a) Initial value	997	2,226	**3,223**	**2,492**
b) Purchases	192	1,338	**1,530**	**2,380**
c) Sales	(66)	(458)	**(524)**	**(41)**
d) Depreciation	(312)	(708)	**(1,020)**	**(1,608)**
e) Assets acquired under finance leases	**811**	**2,398**	**3,209**	**3,223**

SECTION 2 – LESSOR

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

ATTACHMENTS - ACCOUNTS OF THE GUARANTEE SCHEME

DOCUMENT OBJECTIVE

Under the provisions of the Guarantee Scheme, which is governed by legislation and the Cohesion Contract, each bank participating in the Iccrea Cooperative Banking Group (ICBG) pays in a guarantee contribution - commensurate with its risk-weighted exposures and limited to capital in excess of the mandatory requirements at the individual level - in order to enable the Parent Company to undertake financial support interventions to ensure the solvency and liquidity of the individual affiliated banks.

In order to guarantee that the Parent Company has ready access to the financial resources necessary to implement guarantee interventions, in April 2019 the participating banks established the readily available funds (RAFs), represented by an Ex Ante Quota pre-established at the Parent Company and an Ex Post Quota that can be called up by the Parent Company in case of need, making contributions in the technical forms provided for in the Cohesion Contract.

At least annually, the Board of Directors of the Parent Company, in application of the provisions of Annex 3 of the Cohesion Contract and the Group Policy on the Guarantee Scheme, approves: i) the results of the stress testing conducted for the participating banks for the purposes of determining the RAFs; ii) the quotas pertaining to the banks themselves.

In light of the COVID-prompted suspension of the 2020 stress testing for the calculation of the RAFs and the calibration of the 2021 EWS capital thresholds, the Board of Directors of Iccrea Banca voted to confirm, for the whole of 2021:

- the amount of Readily Available Funds and the consequent guarantee obligations in force for 2020;
- the reference threshold levels for the capital ratios of the EWS capital profile in force for 2020, which are linked to the determination of the RAFs.

In view of the foregoing, the RAFs for the 2021 financial year, as for the 2020 financial year, are equal to:

- Aggregate Ex Ante Quota: €385.4 million;
- Aggregate Ex Post Quota: €797.2 million.

Interventions of the Guarantee Scheme

The following table summarizes the support interventions implemented through the Guarantee Scheme with the exclusive use of the Ex-Ante Quota of the RAFs.

Date of intervention	Beneficiary of intervention	Type of intervention	Nominal amount of intervention
16/12/2019	Banca Centropadana	Tier 2 subordinated loan	15,000,000.00
30/12/2019	Vival Banca	Tier 2 subordinated loan	8,000,000.00
26/05/2021	BCC Valdichiana	Shares issued under Art. 150 ter Banking Act	35,000,000.00
23/06/2021	Banca Centropadana	Shares issued under Art. 150 ter Banking Act	13,200,010.24

The quarterly change in the fair value of the transaction was attributed on a pro-rated basis to each affiliated bank and to the Parent Company on the basis of their participation in the Ex Ante Quota of the Guarantee Scheme in accordance with the model used by the Parent Company for the separate accounting of the loan.

Value of the transaction at June 30, 2021

On a quarterly basis, the Parent Company determines the overall fair value of the investments made with the funding dedicated to the Guarantee Agreement defined in Article 6 of the Cohesion Contract as the result of overall performance and periodically notifies the individual mutual banks of the value of their contribution to the specific transaction, equal to their pro-rated share of the total.

Pursuant to Article 4.1 of the Loan Agreement, the revenues of the transaction consist of the investment yields[34] and the returns deriving from the implementation of the interventions. Costs are made up of management costs and possible losses deriving from the transaction and investments.

Pursuant to Article 12 of the Loan Agreement, the Parent Company pays the affiliated banks remuneration related to developments in the transaction and investment activities on the basis of the adjustments to the fair value of the loan and the accounting effects of the interventions undertaken by the Parent Company.

[34] See Article 5 of the Loan Agreement.

The following table provides a breakdown of the fair value notified on a quarterly basis to the participating banks in the first half of 2021 and the associated changes with respect to the fair value of the transaction as at January 1, 2021 (in concomitance with the adjustment of the Ex Ante Quota of the participating banks):

Reference date	Fair value	Change in *fair* value since January 1, 2021[35]
01/01/2021	407,523,168	-
31/03/2021	407,121,461	(401,707)
30/06/2021	406,980,995	(542,172)

The quarterly change in the fair value of the transaction was attributed on a pro-rated basis to each affiliated bank and the Parent Company on the basis of their participation in the Ex Ante quota of the Guarantee Scheme in accordance with the model used by the Parent Company for the managing the separate accounts of the loan.

The following table shows all the components that determined the change in the overall fair value of the investments at June 30, 2021 compared with the amount paid by the affiliated mutual banks and the Parent Company at the time of the adjustment of the transaction value for 2021 (recognized as at January 1, 2021):

	30/06/2021
Interest income on securities	1,550,245
Interest expense	(150,969)
Fee and commission expense	(19,089)
Gain/loss on securities at fair value[36]	(8,117)
Plus/minus on securities at fair value[37]	(1,914,243)
Overall performance of GS	**(542,172)**

See the following section for a breakdown of the individual items.

[35] With a reference date of 31/03/2021 the notice was transmitted to the affiliated banks on April 13, 2021 with Guidance and Coordination Notice Prot. ICR-OUT- 00015-2021-DIR "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 31/03/2021".

With a reference date of 30/06/2021 the notice was transmitted to the affiliated banks on July 13, 2021 with Guidance and Coordination Notice Prot. ICR-OUT- 000728-2021-DG "Periodic notice on operation of the Cross-Guarantee Scheme (GS) - reference date 30/06/2021".

[36] The item reports gains actually realized on securities.

[37] The item reports the increase recognized on the basis of the application of the valuation model.

ACCOUNTS OF THE LOAN FOR A SPECIFIC TRANSACTION

The rules governing the loan for a specific transaction require the adoption of dedicated/separate accounts that ensure the segregation and the separation of income and all other amounts generated by the investment of the liquidity of the loan from the resources of the Parent Company and the companies of the Group.

The model used by the Parent Company to manage the separate accounts of the loan provides for all financial components that affect the financial statements of Iccrea Banca in relation to the management of the funds relating to the transaction, whether generated by valuation or income and charges connected to the management of the funds to be offset in profit or loss by an item of the opposite sign in order to provide the providers of the financing with the net proceeds of the overall management of the funds during the period in question.

Balance sheet – Assets

The following tables are stated in euros.

Assets	30/06/2021	31/12/2020
10. Cash and cash equivalents	22,859,557	43,514,489
20. Financial assets measured at fair value through profit or loss	334,981,360	363,255,123
b) financial assets designated as at fair value	334,981,360	363,255,123
40. Financial assets measured at amortized cost	770,029	5,694,718
a) due from banks	770,029	5,694,718
70. Equity investments	48,200,010	-
120. Other assets	170,039	170,000
Total assets	**406,980,995**	**412,634,330**

Cash and cash equivalents

The amounts regard resources not invested in securities and held on the account of the Guarantee Scheme at the Bank of Italy.

Financial assets measured at fair value

Assets measured at fair value regard financial instruments subscribed by the Parent Company:

- in accordance with the Investment Policy for the Ex Ante Quota of the readily available funds;
- for intercompany capital support operations involving the subscription by the Guarantee Scheme of subordinated loans, pursuant to Article 6.1 of the Cohesion Contract, in favor of Banca Centropadana and Vival Banca in December 2019.

The following table provides a breakdown by issuer country and/or type of instrument of the debt securities that make up the portfolio, measured at fair value in compliance with the applicable accounting rules:

Country	Value at 30/06/2021	Value at 31/12/2020
Austria	1,140,628	1,140,628
Belgium	10,898,148	10,898,148
Finland	1,379,181	1,379,181
France	44,940,566	44,940,566
Germany	35,997,295	35,997,295
Ireland	8,018,746	8,018,746
Italy	88,663,516	88,663,516
Netherlands	2,312,648	2,312,648
Supranational	33,395,284	33,395,284
Spain	61,760,059	61,760,059
Covered bonds	23,449,054	23,449,054
Subordinated bonds subscribed as part of interventions:	23,026,237	22,178,728
- Centropadana	14,813,093	14,236,474
- VivalBanca	8,213,144	7,942,254
Total	**334,981,362**	**363,255,123**

Financial assets measured at amortized cost – due from banks

The item includes cash and cash equivalents held on an account with Euroclear Bank SA.

Equity investments

The amount regard shares subscribed by the Parent Company for capital support interventions in the first half of 2021:

Equity investment	Value at 30/06/2021	Value at 31/12/2020
- Banca Valdichiana	35,000,000	-
- Centropadana	13,200,010	-
Total	**48,200,010**	**-**

Other assets

The item includes the interest accrued on the subordinated loan issued by Vival Banca, paid to the Parent Company with a value date of June 30, 2021. The interest, collected after June 30, , was recognized under "Financial assets measured at amortized cost, other" (item 40) after the close of the period.

Balance sheet – liabilities

The following tables are stated in euros.

Liabilities	30/06/2021	31/12/2020
30. Financial liabilities designated as at fair value	336,289,210	340,957,045
80. Other liabilities	70,691,785	71,677,285
Total liabilities	**406,980,995**	**412,634,330**

Financial liabilities designated as at fair value

The item includes:

- the Ex Ante Quota of the affiliated banks (€277.66 million), adjusted to account for the performance of the dedicated loan at June 30, 2021; and
- the fair value of the indirect financing in:
  - subordinated debt securities issued by Banca Centropadana and VivalBanca (totaling €19.08 million) pertaining to the affiliated banks;
  - equity securities issued by Banca Valdichiana and Banca Centropadana (totaling €39.55 million) pertaining to the affiliated banks.

Other liabilities

The item includes:

- the Ex Ante Quota of the Parent Company (€58.11 million), adjusted to account for the performance of the dedicated loan at June 30, 2021; and
- the fair value of the indirect financing in:
  - subordinated debt securities issued by Banca Centropadana and VivalBanca (totaling €3.93 million) pertaining to the Parent Company;
  - equity securities issued by Banca Valdichiana and Banca Centropadana (totaling €8.65 million) pertaining to the Parent Company.

Income statement

	30/06/2021	30/06/2020
10. Interest and similar income	1,550,245	1,533,902
20. Interest and similar expense	(150,969)	(105,859)
30. Net interest income	**1,399,276**	**1,448,043**
50. Fee and commission expense	(19,089)	(18,400)
60. Net fee and commission income (expense)	**(19,089)**	**(18,400)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss	(1,922,359)	(1,817,974)
of which gain/loss on debt securities	*(8,117)*	*1,199*
of which minus/plus on debt securities	*(1,914,243)*	*(1,819,172)*
Performance of GS	**(542,172)**	**(388,331)**
110.a Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss - of which portion allocated to affiliated banks	445,355[38]	326,905
210. Other operating expenses/income – of which Ex Ante Quota pertaining to Parent Company	96,817[39]	61,425
300. Net profit (loss) for the period	-	-

The model provides for all the income components affecting the Iccrea Banca financial statements in relation to the management of the funds connected with the transaction, whether they derive from valuation or from income and charges connected with the management of the funds, to be offset through the recognition of an item of the opposite sign that allocates to the lenders the performance achieved on managing the loan funds during the relevant period. This is the reason the profit/loss for the period is zero.

Interest and similar income

Interest income (€1.55 million) includes interest accrued on financial instruments held.

Interest and similar expense

Interest expense includes interest paid on the Euroclear account (amounting to €10,137) and the PM account held at the Bank of Italy (€140,832).

Fee and commission expense

The item includes custody fees and expenses paid to Euroclear Bank SA and account fees paid to the Bank of Italy (for a total of €19,089).

Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss - a) financial assets and liabilities designated as at fair value

The item includes the increase in the fair value of the financial instruments subscribed in accordance with the Investment Policy for the EX Ante Quotas of the RAFs and for intercompany capital support operations less the amount reattributed on a pro rata basis to the affiliated banks, in accordance with the accounting model established for the dedicated loan.

110.a Net gain (loss) on financial assets and liabilities designated as at fair value	**(1,477,004)**
- of which: financial assets and liabilities designated as at fair value	(1,922,359)
- of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	445,355

[38] In Iccrea's income statement, item 110.a. Net gain (loss) on other financial assets and liabilities measured at fair value through profit or loss is reported net of the share re-allocated to the affiliated banks (equal to €445,355). The item beaks down as follows:

110.a	**Net gain (loss) on financial assets and liabilities designated as at fair value**	**(1,477,004)**
	– of which: financial assets and liabilities designated as at fair value	(1,922,359)
	▪ of which gain/loss on debt securities	(8,177)
	▪ of which minus/plus on debt securities	(1,914,243)
	– of which: change in value of financial liabilities designated as at fair value (share attributed to mutual banks)	445,355

[39] In the income statement, the change in the Ex Ante Quota pertaining to the Parent Company is reported under item 210. Other operating expenses/income

Other operating expenses

The items refers to the change in the value of the Ex Ante Quota pertaining to the Parent Company (€0.097 million) in reflection of the performance of the dedicated loan as at June 30, 2021.

REPORT OF THE AUDIT FIRM

Iccrea Banca S.p.A.

Auditor's review report on interim financial statements

(Translation of the original report issued in Italian)

Interim financial statements as at 30 June 2021

ORMB/NSDN/vbrb - R2021/00841

Via Toscana, 1
00187 Roma
Tel: +39 06 833 65 900
www.mazars.it

Review report on the interim financial statements

(Translation of the original report issued in Italian)

To the shareholders of Iccrea Banca S.p.A.

Introduction

We have reviewed the attached interim financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows and the related explanatory notes of Iccrea Banca S.p.A. as at June 30, 2021. The directors are responsible for the preparation of the interim financial statements in accordance 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 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 attached interim financial statements of Iccrea Banca S.p.A. as at June 30, 2021, have not been prepared, in all significant aspects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Other matters

The financial statements for the year ended December 31, 2020 and the interim financial statements for the half-year period ended June 30, 2020 have been respectively audited and reviewed by another auditor who expressed an unqualified opinion on the financial statements on May 5, 2021 and expressed an unqualified conclusion on the interim financial statements on October 13, 2020.

Rome, September 30, 2021

Olivier Rombaut
Partner – Registered auditor

(signed on the original)

This report has been translated into English from the Italian original solely for the convenience of international readers.

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Capitale sociale deliberato, sottoscritto e versato € 120.000 - Sede legale: Via Ceresio, 7 - 20154 Milano
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Iccrea Banca